



MBA : SECOND YEAR

SEMESTER IV

MARKETING GROUP

Rural Marketing

Unit 1	Introduction to Rural Marketing	1
Unit 2	Rural Marketing Environment	25
Unit 3	Rural Marketing Model	43
Unit 4	Rural Consumer Behaviour	59
Unit 5	Rural Consumer	81
Unit 6	Segmenting, Targeting and Positioning	99
Unit 7	Rural Product Strategy	115
Unit 8	Rural and Urban Markets	141
Unit 9	Pricing Strategies	165
Unit 10	Role of Microfinance in Rural India	189

YASHWANTRAO CHAVAN MAHARASHTRA OPEN UNIVERSITY

VICE-CHANCELLOR : Prof. E. Vayunandan

DIRECTOR, SCHOOL OF COMMERCE & MANAGEMENT : Dr. Pandit Palande

NATIONAL ADVISORY BOARD

Dr. Pandit Palande

Former Vice Chancellor
Director, School of Commerce
& Management,
Yashwantrao Chavan Maharashtra
Open University, Nashik

Prof. Devanath Tirupati,

Dean Academics,
Indian Institute of Management (IIM)
Bangalore.

Dr. Surendra Patole

Assistant Professor,
School of Commerce &
Management,
Yashwantrao Chavan Maharashtra
Open University, Nashik

Prof. Sudhir. K. Jain

Former Vice Chancellor
Professor & Former Head
Dept. of Management Studies
Indian Institute of Technology (IIT)
Delhi

Prof. Karuna Jain,

Director,
N I T I E, Vihar Lake,
Mumbai

Dr. Latika Ajitkumar Ajbani

Assistant Professor,
School of Commerce &
Management,
Yashwantrao Chavan Maharashtra
Open University, Nashik

Prof. Vinay. K. Nangia

Professor & Former Head
Department of Business Studies,
Indian Institute of Technology (IIT)
Roorkee

Authors

Dr. Sheetal Sharma

Dean Academics & Professor
IILM Lucknow
Uttar Pradesh, India

Dr. Latika Ajitkumar Ajbani

Assistant Professor, YCMOU

Dr. Surendra Patole

Assistant Professor, YCMOU

Editor

Dr. Vinay Sharma

Associate Professor
Department of Management Studies
Indian Institute of Technology (IIT)
Roorkee, Uttarakhand, India
Visiting Professor, IIM, Lucknow

Instructional Technology Editing & Programme Co-ordinator

Dr. Latika Ajitkumar Ajbani

Assistant Professor
School of Commerce & Management
Yashwantrao Chavan Maharashtra
Open University, Nashik

Production

Shri. Anand Yadav

Manager, Print Production Centre, Y. C. M. Open University, Nashik- 422 222

Copyright © Yashwantrao Chavan Maharashtra Open University, Nashik.

(First edition developed under DEB development grant)

❑ First Publication : February 2018

❑ Publication No. : 2264

❑ Cover Design : Shri. Avinash Bharne

❑ Printed by : Shri. Ajit Modak, M/s. Print Lines, A-Road, NICE, Satpur, Nashik - 422 007

❑ Publisher : Dr. Dinesh Bhonde, Registrar, Y. C. M. Open University, Nashik- 422 222

ISBN : 978-81-8055-454-4

MKG 404

Introduction

It is said that Indian rural market is 'sleeping giant' since there is vast potential. Rural market environment has changed. So is the rural consumer. The earlier myths are broken into reality while rural consumer is becoming conscious regarding quality, price realization, and enjoying the benefits of services related to product's sales and customer delight. Again, rural market is not confined to marketing of agricultural inputs and agro-products. It is growing to expand and enlarge to encompass marketing of agricultural produce, agro-products, agricultural inputs, non-farm products, FMCG's and durables, services, etc. Almost all the MNC's and corporates are responding to change environment and trying their best to penetrate and enhance market size through exploiting newly emerged rural markets. Interestingly, the understanding of rural consumers; dynamics of rural business environment; examining problems, challenges and constraints; and exploring and exploiting the potentials is the need of hour. The need for a systematic approach to rural marketing is felt by the academicians, policymakers, marketers and activists of NGO's. Against this viewpoint, the book has been prepared to provide a framework of

understanding the dynamics of rural marketing and suggesting appropriate strategies to explore and exploit the emerging potentials. The chapters provide thorough information, knowledge and data pertaining to products and services. The book highlights: critical issues in rural markets, marketing environment, consumer behaviour, agriculture inputs, agricultural produce, non-farm products, communication marketing research and MIS, consumer goods and durables, distribution channels, retailing, services sector, social development, problems and challenges, marketing strategies etc.

- Dr. Vinay Sharma
- Dr. Sheetal Sharma
- Dr. Latika Ajitkumar Ajbani
- Dr. Surendra Patole

-

Copyright © Yashwantrao Chavan Maharashtra Open University, Nashik.

All rights reserved. No part of this publication which is material protected by this copyright notice may be reproduced or transmitted or utilized or stored in any form or by any means now known or hereinafter invented, electronic, digital or mechanical, including photocopying, scanning, recording or by any information storage or retrieval system, without prior written permission from the Publisher.

The information contained in this book has been obtained by authors from sources believed to be reliable and are correct to the best of their knowledge. However, the publisher and its authors shall in no event be liable for any errors, omissions or damage arising out of use of this information and specially disclaim any implied warranties or merchantability or fitness for any particular use.

Message from the Vice-Chancellor

Dear Students,
Greetings!!!

I offer cordial welcome to all of you for the Master's degree programme of Yashwantrao Chavan Maharashtra Open University.

As a post graduate student, you must have autonomy to learn, have information and knowledge regarding different dimensions in the field of Commerce & Management and at the same time intellectual development is necessary for application of knowledge wisely. The process of learning includes appropriate thinking, understanding important points, describing these points on the basis of experience and observation, explaining them to others by speaking or writing about them. The science of Education today accepts the principle that it is possible to achieve excellence and knowledge in this regard.

The syllabus of this course has been structured in this book in such a way, to give you autonomy to study easily without stirring from home. During the counseling sessions, scheduled at your respective study centre, all your doubts will be clarified about the course and you will get guidance from some experienced and expert professors. This guidance will not only be based on lectures, but it will also include various techniques such as question-answers, doubt clarification. We expect your active participation in the contact sessions at the study centre. Our emphasis is on 'self study'. If a student learns how to study, he will become independent in learning throughout life. This course book has been written with the objective of helping in self-study and giving you autonomy to learn at your convenience.

During this academic year, you have to give assignments and complete the Project work wherever required. You have to opt for specialization as per programme structure. You will get experience and joy in personally doing above activities. This will enable you to assess your own progress and thereby achieve a larger educational objective.

We wish that you will enjoy the courses of Yashwantrao Chavan Maharashtra Open University, emerge successful and very soon become a knowledgeable and honorable Master's degree holder of this university.

Best Wishes!

- Vice-Chancellor

Rural Marketing (MKG 404)

SYLLABUS

Unit 1 : Introduction to Rural Marketing

Why Rural Marketing? — Nature and Characteristics of Rural Market — Challenges and Opportunities — Challenges in Indian Rural Markets — Rural Products — Product Promotion in Rural Markets — Strategic Challenge – Understanding Customers Needs — Marketing Relativity through Competition — Unique Selling Proposition — Market Evolution — Market Scenario in India

Unit 2 : Rural Marketing Environment

Rural Marketing Model — Rural Marketing Environment — Rural Economic Environment — Rural Socio-cultural Environment — Rural Political Environment — Rural Technological Environment — Features of Indian Rural Markets — Understanding Rural Markets — Changing Profile of Rural Marketing — Factors Contributing to the Growth of Rural Marketing

Unit 3 : Rural Marketing Model

Rural Marketing Model — Significance of Rural Markets — Strategies for Rural Marketing — Problems Related to Rural Marketing — Emerging Trends in Markets — Need Based Production

Unit 4 : Rural Consumer Behaviour

Rural Consumer Behaviour — Factors Influencing Buying Behaviour — Cultural Factors Influencing Consumer Behaviour — Buying Process Factors Affecting the Purchase Decision of the Rural Consumer — Opinion Leaders — Market Segmentation to the Lure Rural Customer Organizational Buying Behaviour — Consumer Behaviour — Positivism and Interpretivism — Role Play Module

Unit 5 : Rural Consumer

Lifestyle of Rural Consumer — The Elusive Average for Rural Consumer Influence of the Larger Environment on Rural Consumers — Occupation and Consumption Pattern — Place of Purchase Variations — Social and Behavioural Influences — Attitude to Quality and Price — Brand Preference and Loyalty — Heterogeneity of Rural Consumers — Segmentation Opportunity

Unit 6 : Segmenting, Targeting and Positioning

Market Segmentation — Conditions for Effective Market Segmentation — Approaches for Segmenting the Rural Market — Based on Size of Village Population — Based on Location with Respects to Nearby Town — Based on Size of Farmland — Rural Market Segmentation Tools — Thomson Rural Market Index — Mica Rural Market Rating — Linquest — Indian Market Demographic — Business Intelligence Unit — Lincompass — ARCVIEW

Unit 7 : Rural Product Strategy

The Product Concept — Levels of a Product — Product Life Cycle — Rural Product Classification — Product Decisions and Strategies — Individual Product Decisions — Product Line and Mix Decisions — Product Line Product Mix Decisions — Product Life Cycle Strategies in Rural Markets

Unit 8 : Rural and Urban Markets

Rural and Urban Markets: A Comparative Analysis — Rural vs Urban Consumers – Challenges — Parameters Differentiating Urban and Rural Markets — Difference in Consumer Behaviour in Rural and Urban Markets— Governing across and beyond the Rural-urban Boundary — Stages of Buying Decision Process — Market Targeting — Segmenting Consumer and Business Markets

Unit 9 : Pricing Strategies

Pricing Elements — Pricing strategies — Production Costs — Finalization of Price — Rural Pricing Strategies — Pricing and Income Levels — Competition and Pricing

Unit 10 : Role of Microfinance in Rural India

Legal and Regulatory Framework for the Microfinance Institutions in India — A Profile of Rural India — Rural India and Microfinance — Success Factors of Microfinance in Rural India — Marketing of Microfinance Products Apni Mandi

UNIT 1: INTRODUCTION TO RURAL MARKETING

*Introduction to
Rural Marketing*

NOTES

1.0 Unit Objectives

1.1 Introduction

1.2 Why Rural Marketing?

1.3 Nature and Characteristics of Rural Market

1.4 Challenges and Opportunities

1.4.1 Challenges in Indian Rural Markets

1.5 Rural Products

1.6 Product Promotion in Rural Markets

1.7 Strategic Challenge – Understanding Customers Needs

1.7.1 Marketing Relativity through Competition

1.8 Unique Selling Proposition

1.9 Market Evolution

1.10 Market Scenario in India

1.11 Summary

1.12 Key Terms

1.13 Questions and Exercises

1.14 Further Reading and References

1.0 Unit Objectives

After reading this unit, you should be able to:

- Define Rural Marketing.
- Discuss about the Nature and Characteristics of Rural Market.
- Describe the Challenges and Opportunities of Rural Market.
- Explain the Overview of Indian Rural Market.

Rural Marketing : 1

NOTES

1.1 Introduction

The question being asked by even some senior marketers in India is, “Why rural marketing, when there is enough business available in the urban markets even today?” People are afraid of the unknown elements of the rural markets and they feel that different marketing theories and principles would be required in rural marketing.

1.2 Why Rural Marketing?

The following areas are the commonest of the worries that trouble the urban marketers, when they even think of rural markets:

1. The first source of worry is the product price and affordability in the rural markets. With low income levels, the rural buyer is almost considered a non-buyer, and yet the sales being made in rural markets by certain companies defies the logic.
2. The next source of worry is the needed distribution patterns with problems arising out of lack of proper transportation, bad roads adding to the irksome “product availability situation”.
3. Reaching out to the rural customer through advertising poses a major problem due to
4. Illiterate population and lack of media reach.
5. Most importantly, however, it is rural mindsets that create a barrier of significant magnitude to put off several prospective rural marketers.

As the sellers plan rural marketing, a few strange situations come to their minds as given below:

The seller wants to see the demand pattern of rural markets to become equal to the urban demand. However, the rural buyer behaviour is considered to be entirely at variance with the urban mindset. The paradox is compelling the seller into planning severely different marketing plans for the rural markets. The basic fact that consumers need motivation for buying a particular product, a specific brand, involves learning the psychographic understanding of the buyers and not just for the rural urban divide.

The other disturbing factor is the total denial of the rural presence in the geography of the country. The pristine natural unpolluted air, the beauty of the rural scene is totally lost to the urban soul. Naturally, the rural tragedies, happiness and the entire rural ethos are alien to the urban mind. The result can be seen in few reference points available that can benchmark the stimuli levels needed for the rural buyers. The urban generation of today has no links at all with the village and its life. The urbanisation of the mindset is total, complete. The senior generation still believes that the villages are yet enjoying the pastoral bliss, whereas the villagers enjoy daily dose of Hindi films, either on the TV or in makeshift halls. Village still gets reflected in the help elders provide to the children in writing school essays on village life. However, the topic of village has always a short life as it can never sustain a long discussion or enquiry.

Indians consider the villages to be still living in prehistoric times with people having primitive passions that evoke fear amongst the urban population, the fear of the unknown. They consider the village to be “the other India” quite different from the urban India. The village, the urbanite believes, can be presented as a source of amusement in a reality TV show. The implications of these urban understandings of the villages are given below:

1. Urban mind has distanced itself from the rural market through the belief that rural marketing needs specialisation for success.

NOTES

Check Your Progress

What are the nature and characteristics of Rural Market?

NOTES

2. The entire village scene has been stereotyped with the belief that they are all the same in the entire country.
3. There is yet no attempt at understanding the village buyers and their buying motivations and this fact is most evident when the rural advertisements are viewed, for e.g., the way Dhanno sings about her happy life and people in panchayats talking about the new road likely to come to the village soon and the advent of village fairs with nautankis. As any marketer of repute will tell, this situation needs to be changed and changed with immediate effect. Villages in the country spread across its length and the breadth. The village people are poorer than the city folks as the village contributes less than 50% to the total country's income. However, now the situation is gradually changing for the better. There are 25 official languages and some four hundred dialects spoken in the country. Most world religions have their adherents here.

In the first half of the twentieth century, village people were using *neem or babul* tree twig for cleaning their teeth. Today, they are using tooth powder or toothpaste. Instead of groundnuts the children are asking for chocolate candies. Face cream or lotions have replaced besan (chickpea flour) as a face cleanser.

Appreciating the size and business potential of the rural market, major companies, including, Hindustan Unilever, P&G have made special strategies for targeting rural markets.

1.3 Nature and Characteristics of Rural Market

There goes a saying that the proof of the pudding lies in the eating. So also the proof of all production lies in consumption/ marketing. With the speedy pace of technological development and

augment in peoples buying capacity, more and better goods and services now are in constant demand. The liberalization and globalization of the Indian economy have given an added advantage to sophisticated production, proliferation and mass sharing of goods and services. Taking these into deliberation, the question may arise whether marketers should concentrate their activities in urban India consisting of metros, district headquarters and large industrial townships only, or extend their activities to rural India. Rural India is the real India. The bulk of India's population lives in villages. In terms of the number of people, the Indian rural market is almost twice as large as the entire market of the USA or that of the USSR.

NOTES

- Agriculture is main source of income.
- The income is seasonal in nature. It is fluctuating also as it depends on crop production.
- Though large, the rural market is geographically scattered.
- It shows linguistic, religious and cultural diversities and economic disparities.
- The market is undeveloped, as the people who constitute it still lack adequate purchasing power.
- It is largely agricultural oriented, with poor standard of living, low-per capital income, and socio-cultural backwardness.
- It exhibits sharper and varied regional preferences with distinct predilections, habit patterns and behavioral characteristics.
- Rural marketing process is both a catalyst as well as an outcome of the general rural.

Development process. Initiation and management of social and economic change in the rural sector is the core of the rural marketing process. It becomes in this process both benefactor and beneficiary.

NOTES

1.4 Challenges and Opportunities

1.4.1 Challenges in Indian Rural Markets

Rural markets, as part of any economy, have untouched potential. There are several difficulties confronting the effort to fully explore rural markets. The concept of rural markets in India is still in evolving shape, and the sector poses a variety of challenges. Distribution costs and non availability of retail outlets are major problems faced by the marketers. The success of a brand in the Indian rural market is as unpredictable as rain. Many brands, which should have been successful, have failed miserably. This is because most firms try to extend marketing plans that they use in urban areas to the rural markets. The unique consumption patterns, tastes, and needs of the rural consumers should be analyzed at the product planning stage so that they match the needs of the rural people.

Therefore, marketers need to understand the social dynamics and attitude variations within each village though nationally it follows a consistent pattern. The main problems in rural marketing are:

- Understanding the Rural Consumer
- Poor Infrastructure
- Physical Distribution
- Channel Management
- Promotion and Marketing Communication

There has been a considerable amount of discussion on rural India of late and the opportunity it presents and one almost gets tired of the rate at which CK Prahlad is being quoted these days. Rural India definitely does present immense opportunity but for everyone trying to make millions out of it, there are a few words of caution on the challenges that the landscape presents.

NOTES

- 1. *Distribution and logistics:*** Infrastructure continues to be a challenge in rural India. Moreover, the lack of an efficient distribution network prevents penetration of products/ services into rural India. One of the most innovative models in recent times has been the usage of the postal service by mobile operators to penetrate scratch cards to the villages.
- 2. *Payment collection:*** The majority of the rural population is still unbanked. Clearly, noncash collection becomes rather unlikely. Cash collections, on the other hand, are messy and difficult to monitor, especially since cash cards or technology-enabled centralized POS (like Suvidha or ItzWorld) have still not reached rural areas. The time-tested manufacturer-distributor-retailer network has been the only real success so far but setting up such a structure is rarely feasible. Partnering with MFIs comes to mind but often, the MFIs don't cater to the relatively more privileged/affluent segments of the rural economy who are likely to be early adopters.
- 3. *Pricing:*** While Sachet pricing may have worked very well for Chik shampoo, the overheads involved in payment collection do not always allow easy execution of sachet pricing. It is easier to collect in larger amounts as every instance of collection and carrying of cash has associated costs. Disposable income, though, isn't always high since the bulk of rural India is agricultural and income cycles in agricultural are very erratic and not as predictable as in the case of us salaried individuals.
- 4. *Scaling across geographies:*** If India is a land of many cultures, the contrast becomes that much starker in the case of rural India. Setting up operations on a pan-India level presents different types of hurdles in different states

NOTES

ranging from political juggling to downright local factors. Any model where scalability involves scaling on-ground operations (and not merely an increase in downloads) is bound to run into myriad issues as we move from one state to the next. Add to that the greater differences in consumer tastes and behavior across geographies than in the relatively more cosmopolitan urban population.

5. ***Developing inorganic scale:*** Developing synthetic scale through partnerships typically results in larger overheads in the rural context. Finding the right partner with reach and presence in villages is difficult to start with. More importantly, there are very few players who are strong on these counts across multiple geographies. Hence, a pan-India rollout typically requires multiple partnerships resulting in higher partner management overheads.
6. ***Social and cultural challenges:*** The cyber café (or kiosk) model has not worked in many parts of rural India due to socio-cultural issues. One of the reasons for the failure of the kiosk model in Kuppam (HP's i-community) was the lack of usage by women which was largely due to their discomfort in going to kiosks run by men.

1.5 Rural Products

Most products required in cities are also needed in the rural markets (with few exceptions), as given below:

1. FMCG products like cosmetics, food items, cooking oil, kerosene, and medicines
2. Consumer durables like refrigerators, stoves, motor cycles
3. Farm products like tractors, harvesters, seeders, seeds, fertilizers, and diesel, water supply for household use

- including drinking purposes and for watering farms
4. Services like, health clinics, water supply, electricity, eateries, inns
 5. Housing Pricing in rural markets is tricky because the companies spend more on transporting the products as compared to transporting them to the cities. However, the paying power in rural areas is much less. Companies can, therefore, plan to have low cost packaging with a bit of attractive glitter while keeping the product unchanged in most cases. The companies can work out the rural customers MTBP (Mean Time Between Purchase). They will find that the rural customer will stretch the purchase time much longer. This would be true for most FMCG products. Food items, however, would be needed as per household requirements. The business, however, will snowball because of the sheer numbers of buyers in villages.

NOTES

1.6 Product Promotion in Rural Markets

Products are kept for sale at the grocers' shops, diesel/kerosene dealers, and tractor repair shops. Besides, companies sell through mobile vans that cover the villages mostly on the days of their weekly markets. These vans carry advertising materials, audio-visual equipments for showing movies besides company's advertisements and the products for sale, and also samples like shampoo sachets for test marketing of the products. Product promotion in rural markets is done through the vans. Besides, the radio, which has a wide coverage as it covers the entire country geographically, is used. Television reach has increased of late and with better electricity availability it has become a good option, more especially because of its universal appeal. Pamphlets, loudspeaker announcements during weekly markets, mostly on roaming rickshaws, and banners on elephants and camels

NOTES

Check Your Progress

Describe the challenges and opportunities in Rural Market?

are used in many areas. Villages need schools, as the literacy levels are still low. Technical and computer education is becoming increasingly important even in villages. There is a great need for libraries, bookstores and newspapers, magazines in local languages. Income levels in the rural India can be described as follows:

1. High in certain areas for rich land owning farmers
2. Low for farmers with small lands
3. Very low for farm hands and migratory farmers

Village industries, specially cottage and small scale industries, handlooms, milk farming, and sheep rearing need governmental support or infusion of cooperatives in these areas. The Amul example must be replicated in other parts of the country. The village *Bania*, who has been the proverbial loan shark, is fast disappearing as a tribe and yet the rural banking needs much more thrust. A number of banks have started branches in villages, though they are affected by non availability of collaterals for giving loans to farmers. Farm insurance would go a long way in settling this problem it is hoped. Bad crops further derail the interest payments leading to bad debts that retard the progress for which the banks have been setup.

1.7 Strategic Challenge - Understanding Customers Needs

Customers have needs, which are obvious, like the need for food, clothing, and shelter. Some of these needs are explicitly mentioned like the need of a house. However, what is real is the need of the house in a locality close to the farm, school and shopping area. Besides, the unstated need could be of a pucca brick house.

Firms face the challenges of new competition, both local and global, and of new technologies as they cater to consumers in

business-to-business areas and as individuals. In order to ascertain the product needed by the consumers, market research is undertaken, which offers information about the product, price, placement, i.e., distribution system needed and the methods of communicating information about the product to the consumers, i.e., by advertising and promotion, that are among the famous 4 Ps of marketing. In order to prepare the right 4 Ps, firms define their market segment in which the product would be best accepted. The firms try to understand the exact needs of the segment in order to be able to meet the same. In order to build loyal customers firms are trying relationship marketing, to ensure that consumers feel obligated to buy the same product again and again. Quantity discounts, free gifts are some of the means to build relationships with the consumers. Since the competition is doing exactly the same, it is the firm with better strategy, which wins. Changes from the earlier concepts of production orientation, to product orientation and later on to market orientation has helped firms in fine tuning their marketing strategies to suit the consumers from their chosen market segment. The concept of providing socially acceptable products, which do not affect the biodiversity, and which are not ecologically degrading the environment is gaining ground rapidly.

Caselet -

Bharat Strategy: An attempt to win Rural India

Two major telecom companies of the country, Reliance Communications and Idea Cellular entered into two unusual partnership – Krishak Bharati Cooperatives Ltd. and the department of Posts. While Kribhco's 25,000 co-operatives will market RCom's telecom products and services, the post offices in Kerala will sell Idea's specially designed stamp sized recharge vouchers. A few months earlier, Airtel entered into a joint venture with the Indian Farmers Fertilizers Cooperatives Ltd. (IFFCO) to offer specifically designed

NOTES

NOTES

products and services. The target consumers are the 55 million farmers under Iffco's fold. Airtel has already enrolled over 60,000 farmers under this scheme. Mobile phone manufacturer Nokia, which had earlier launched a basic handset with a torch and a alarm clock, has now gone a step further with Nokia. Life Tools – a range of agriculture, education and entertainment services designed especially for consumers in small towns and rural areas. The life tools provide basic information on weather, mandi prices and crops. The efforts of Indian telecom companies to woo Bharat have finally started bearing fruits. Airtel gets more than half of its new subscribers from rural and semi urban areas. Similarly with Vodafone – Essar (50 percent), Idea Cellular (56 percent) and Reliance Communications (50 percent). The Indian telecom sector adds an average 10 million subscribers every month, of which rural areas account for over five million. And Nokia sells over 1.6 million phones yearly in rural areas. As per an Assocham Report on rural consumption, in three years the per capita income in rural areas will double. Considering that rural households form 72 per cent of the total, the rural market roughly comprises 720 million customers. The Indian telecom market woke up to the potential about three years ago and the moves are paying off now. Airtel's president, Atul Bindal said, the company was finally seeing its rural strategy yielding handsome results. Apart from the tie- up with Iffco, the company has set up Airtel Services Centres in rural areas to provide services and handle customer queries and complaints, eliminating the need of call centres. The company has also tied up with Nokia to launch an educational initiative in order to give rural users a live experience on mobility services, that include hands on training on making the first phone call and sending SMS with localised content. But still selling phones in the rural areas is not a easy job. It is not easy to convince and sell products and services. Idea Cellular Managing Director Sanjeeva Aga agreed. "Providing telecom services in rural India is not an easy affair.

Companies have to overcome many constraints, like electricity (causing infrastructural issues) and topographical and logistic (distribution) issues, among others. Moreover, rural India's income is dependent on harvest, monsoon and many other factors. The companies have hardly any option, as metros and major cities are saturated. The immediate benefits are low and would initially drain the operators' overall revenues, rural markets are lucrative in the long run. Look at the FMCG industry, where most of the majors are now focusing on rural areas.

Question

Analyse the caselet and discuss the case facts.

1.7.1 Marketing Relativity through Competition

Companies do not operate in vacuum; they have to face and deal with the competitive forces operating in the market. It is, therefore, of paramount importance for companies to know the exact competitive situation, their moves, their strengths and weaknesses, pricing and promotion strategies, channels they use for distribution and their reaction time to the company's strategic moves like price modifications, introduction of new channels of distribution and advertising thrusts.

Companies face competition from different sources as given below:

- Firms selling similar products in same volumes to same customers for giving satisfaction of a similar nature.
- Firms likely to offer alternate solutions for similar problems (the airlines meeting the fare structure of railways is a case in point).

NOTES

NOTES

- Firms getting their R&D operations to bring out innovative uses of existing products or developing new better products giving superior satisfaction to the buyers. Companies must plan to have a covert intelligence network that is legal and yet provides them with competitive information. Once collected the information must be sifted and the unnecessary data should be deleted while the good data disseminated to those concerned. Companies should get the customer's perspective regarding competitive product's value to the customers, how they perceive its benefits as compared to the benefits offered by the company's products. Companies with the largest market share are the market leaders, belonging to the Star quadrant in the BCG Matrix. To stay on the top, companies have to keep enlarging their market base, retain their existing customers and get some non-users to become users as well as take customers from competition. This involves price reductions; besides better market management including training of selling team and promotion plans with increased advertising efforts. These activities take a sizable amount of finances reducing the profits earned by the company. Companies that have lesser share of the market attempt to increase the same with bigger thrust on marketing efforts. They try product innovations and differentiations, price penetrations, lower costs of manufacturing through higher scales of manufacture and experience curve along with speedier reach to the market place. They also get into a niche market where their product has the best acceptance. In their niche market they can communicate with the customers in a language most easily understood by them. Competitive understanding should be achieved

by a comparison of the market share of competitors and the status of different players in the industry. Competitive information can be gathered through market surveys, interaction with channel members and industry publications. Competitors' balance sheets too provide information about competition. Such information collected from different sources should then be collated, analysed and the results disseminated to the concerned persons. Market leaders can at times become low profit entities and the second and the third level players can take the leadership position if they find it attractive enough for their products. These companies use penetrating pricing policy, attractive promotion plans, low cost production and product differentiation. However, a cost-benefit analysis must be undertaken before attempting increase in market shares. The companies having low market share could be making good profits compared to high share companies because they are not investing in marketing expenses to that extent. They could be claiming better-personalized service and tailor-made solutions to their customer's problems or product needs. "We are second and we strive harder for your satisfaction should be their punch line". These companies could cater to niche markets better as they understand its needs better.

NOTES

1.8 Unique Selling Proposition

Companies do a cost benefit analysis before planning marketing communication as the advertising, promotion and personal selling revolve around the USP. A single product benefit well advertised can capture the customers' imagination and get firmly

NOTES

planted in their psyche. Attitudes, beliefs and purchase decisions are taken due to such mindsets. However, at times multi-benefit communication can be used to further focus the product into the psyche. Products need to be differentiated for achieving distinctive competitive advantage. The differentiation can be made in product itself, and in the following areas:

- Product features
- Service, both sales service and after sales service
- Quality, both static structure and dynamic specifications
- Consistency of quality
- Reliability of product and service
- Availability of spares and repair facility
- Customer training in proper use of the product
- Channel members personnel
- Advertising campaigns

1.9 Market Evolution

In the beginning of the time, people lived in caves, hunted for food and searched for edible roots, fruits. The division of work or of labour started with more proficient hunters going for the beasts while others kept the search for vegetable foods. Next, minerals were found. The women were engaged in preparing food for eating and shaping the animal hides for wearing and using minerals as cosmetics. We can consider the women as manufacturers of that time. Later, people found that they had a little surplus of a few items of food or clothing while they needed some other items. This lead to persons going with their wares to neighbouring areas to barter their products with those of the areas they were visiting. These persons were the first salesmen. As the commerce increased, it became necessary for some people to precede the salesmen and

could talk about the products. Thus started the profession of advertising. Still later, the community heads, the warriors and others who had nothing to sell, and yet they wanted to buy, needed an item, which they could give in exchange of goods. The currency, and monetary systems can find their genesis from this point. From such beginnings, we have reached the world of supermarkets, and Internet sales with highly competitive products coming out in the market on a continuous basis. This has led to organized market research into the needs of the customers, and research and development for developing the needed products, besides other innovative products which find market eventually, like the cell phone, through diverse and complex distribution systems. The government of the country - its monetary systems, money supply organizations together with greater awareness of products and their needs among the customers, has made the market place complex as also rewarding. The sequence of market development can thus be shown as given below.

- Later periods saw the burgeoning Distribution Channels, rise of Middleman, the Agency System, Credit Sales, and Hire-Purchase.
- Over a period of time the concept of just selling got converted into the Grand Marketing.
- Phenomenon. Tracing back the evolution of commerce, we find that after the age of barter and beginning from the last decade of the nineteenth century, sales became an important discipline in business. During that time Industrial Revolution had started in Europe, followed by Mass Manufacturing Techniques the Assembly Line Operation, which as per experts was propagated by Henry Ford of the Ford Motor Company. The result was increased production of Quality Goods. Hence for most products, the supply exceeded demand. It was

NOTES

NOTES

natural, under the circumstances that the manufacturers had to resort to hard sell, or power selling techniques. Salesmanship became an extremely valued profession. Successful salesmen believed that salesmen are born and people cannot be trained to become good salesmen. And yet training for salesmanship started in right earnest at about that time, that is in the early twentieth century.

1.10 Market Scenario in India

Changing scenario in the twenty-first century for India is due to:

1. Opening of country's economy
2. Global competition
3. Better quality products
4. A large variety of models of same products
5. High-tech products
6. New channels of distribution
7. New channels/media for advertising
8. Educated well informed customers, who are aware of their rights
9. Complaint redress forums.

In 1991, the Government of India changed the rules of the business game as follows:

1. Removal of license to manufacture for most products
2. Foreign equity allowed in industries
3. Lower rates of import duty
4. Partial convertibility of rupee
5. Lowering of importance of government/public sector business

The above resulted in several global players getting into the country with massive investments. Later changes in governments, led to slowing down of economy and reforms and in many cases

foreign firms found that the large investments have not borne the expected results e.g. Daewoo Motors. However with a large purchase group of some two hundred million people, the foreign firms believe that they can yet make a profit by just persevering in India. Lowering import duty has helped in exports as export related manufacturers could get their raw materials imported without any problem. This has also helped foreign firms in getting their products for Indian market, giving Indian customer the choice of a variety of goods, of better quality. Partial convertibility of Rupee has helped exporters in more than one way, specially by allowing them unrestricted imports. The public sector or government owned firms have lost their importance over the years and now the government has put quite a few of them for disinvestments. The fact that there was a Ministry of Disinvestments in the center shows the importance the government of India places on disinvestments.

NOTES

1.11 Summary

- The green revolution was the result of the government's policy of research on agriculture.
- Brand image or brand equity is perhaps one of the two most important aspects of any business, the other being market share.
- Developing synthetic scale through partnerships typically results in larger overheads in the rural context.
- Pricing in rural markets is tricky because the companies spend more on transporting the products as compared to transporting them to the cities.
- The demographic changes include diversity in the professional profile of the village folks.
- Firms face the challenges of new competition, both local and global, and of new technologies as they cater to

NOTES

consumers in business-to-business areas and as individuals.

- The market is undeveloped, as the people who constitute it still lack adequate purchasing power.
- Rural markets, as part of any economy, have untouched potential.
- The government has enacted laws against child marriages and dowry.
- Companies that have lesser share of the market attempt to increase the same with bigger thrust on marketing efforts. Rural electrification and roads have been given priority in the government's planning process.
- Infrastructure continues to be a challenge in rural India.
- Companies must plan to have a covert intelligence network that is legal and yet provides them with competitive information.

1.12 Key Terms

Brands: Any firm, which becomes a market leader normally, has at least one Lead Brand. The firm tries to sell its other products under the umbrella of that brand. Sometimes, firms use the popular brand to sell other products, either bundled with it or by way of promotion of lesser known product in coordination with the main brand.

Cost Leadership: Product manufacturing cost have a major bearing on how well it can be sold in the market. If all competitive products are equally acceptable to the customers, the firm with lower cost will gain advantage over competitors.

Differentiation: As customers are always looking for products, which are different from other similar products, sellers try to give a little modification in the product or service, or distribution to make a marked change from the run of the mill operations.

Payment Collection: The majority of the rural population is still unbanked. Clearly, non-cash collection becomes rather unlikely. Cash collections, on the other hand, are messy and difficult to monitor, especially since cash cards or technology-enabled centralized POS have still not reached rural areas.

Quality Standards: Firms, find out through market surveys the correct specification of the product they plan to make. These specifications are then converted to manufacturing standards and firms have to keep meeting these specifications for each unit produced by them.

NOTES

1.13 Questions and Exercises

1. What are the nature and characteristics of Rural Market?
2. Discuss the Business Environment in Rural India.
3. What do you know about product promotions in Rural Market?
4. Describe the challenges in Indian Rural Market.
5. Explain the Unique Selling Proposition.
6. Explain the product promotion in Rural Markets.
7. Describe the Rural Markets.
8. Describe the challenges and opportunities in Rural Market.
9. What do you know about cooperative service organizations?
10. Describe the marketing relativity through competition.

Check Your Progress

Fill in the blanks:

1. Developing synthetic scale through partnerships typically results in larger overheads in the context.
2. The majority of the rural population is still

NOTES

3. The time-tested manufacturer-distributor-retailer network has been the only real success so far but setting up such a structure is rarely
4. The dependence of villagers on farm income that varies with the fluctuations in rainfalls so vitally required for
5. The government has enacted laws against child marriages and
6. and roads have been given priority in the government's planning process.

State whether the following statements are true or false:

1. Companies with the largest market share are the market leaders, belonging to the Star quadrant in the BCG Matrix.
2. Companies do a cost benefit analysis before planning marketing communication as the advertising.
3. Firms getting their R&D operations to bring out innovative uses of existing products or developing new better products giving superior satisfaction to the buyers.
4. Secondary Stage gives big profits for the first arrivals on the scene as with no competition skimming prices can be charged.
5. Production in rural markets is tricky because the companies spend more on transporting the products as compared to transporting them to the cities.

Multiple Choice Questions:

1. Cost leadership is obtained by either achieving economies of scale of manufacture when the firm is able to reduce unit:
(a) variable cost (b) fixed cost
(c) multiple cost (d) production cost
2. Any firm, which becomes a market leader normally, has at least one:

- (a) lead brand (b) secondary brand
(c) primary brand (d) multiple brand
3. Once a firm has established one of its brands as a leader it diversifies to include complementary:
- (a) price (b) products
(c) sales (d) value
4. manufacturing cost have a major bearing on how well it can be sold in the market.
- (a) goods (b) cost
(c) credit (d) product

NOTES

Answers:

1. Rural 2. Unbanked 3. Feasible 4. Farming 5. Dowry
6. Rural Electrification 1. True 2. True 3. True 4. False
5. False 1. (b) 2. (a) 3. (b) 4. (d)

1.14 Further Reading and References

- Awadesh Kumar Singh, *Rural Marketing: Indian Perspective*, New Age International.
- Balkrishnan, Mandira Dutta (1978), “*Rural Marketing: Myth and Reality*”, *Economic and Political weekly*, August 1878, M-75 to M-80.
- Balram Dogra, *Rural Marketing*, McGraw Hill Companies.
- Dey, N.B and Adhikari, KingShuk (1998) “Rural Marketing challenges and opportunities”, *Yojana*, 42(5), May 1998,, p.21-22, 41.
- Gaikwad, V.K (1972), “A Research for the Rural Consumer”, *IN: New Opportunities in Changing Agriculture*, Ahmedabad: CMA(IIMA), 1972, pp 159-172.

NOTES

- Jha Mithileswar (1998), “Rural Marketing: Some Conceptual issues”, *Economic and Political Weekly*, Vol XXIII(No. 9), February 27, 1998, pp M-8 to M-16.
- Kannan Shanthi (2001), “Rural Market – A world of Opportunity”, *Hindu*, 11 October, 2011
- Kotler, P., & Armstrong, G. (2010). Principles of marketing. pearson education.
- McCracken, J., J, Pretty and G. Conway. (1988). *An Introduction to Rapid Rural Appraisal for Rural Development*. Iled, London, England.
- Pradeep Kashyap & Siddhartha Raut, *The Rural Marketing*, Biztantra.
- R.V. Bedi, N.V. Bedi, *Rural Marketing*, Himalaya Publishing.

UNIT 2 : RURAL MARKETING ENVIRONMENT

*Rural Marketing
Environment*

NOTES

2.0 Unit Objectives

2.1 Introduction

2.2 Rural Marketing Model

2.2.1 Rural Marketing Environment

2.2.2 Rural Economic Environment

2.2.3 Rural Socio-cultural Environment

2.2.4 Rural Political Environment

2.2.5 Rural Technological Environment

2.3 Features of Indian Rural Markets

2.4 Understanding Rural Markets

2.5 Changing Profile of Rural Marketing

2.6 Factors Contributing to the Growth of Rural Marketing

2.7 Summary

2.8 Key Terms

2.9 Questions and Exercises

2.10 Further Reading and References

2.0 Unit Objectives

After reading this unit, you should be able to:

- Define Rural Marketing Environment.
- Discuss the Features of Indian Rural Markets.
- Describe the Changing Profile of Rural Marketing.
- Understand the Factors Contributing to the Growth of Rural marketing.

NOTES

2.1 Introduction

The emergence of an active cash economy is bound to create is bound to create a strong rural demand and promote rural consumption. The traditional growth and dominance of urban industrial centers are undergoing rapid changes. A more equitable distribution in rural areas would also help in slowing down the rapidly increasing influx of people from rural to urban areas.

2.2 Rural Marketing Model

Companies work marketing models before entering any market. They approach different models to reach the target market. They work in a organised way which gives the step by step process to implement. Depending upon the market the model may get slight change but the steps may remain same. The process help the companies to analyze the real market and launch their business. There should be a clarity in this so as to reach the success in the rural market

2.2.1 Rural Marketing Environment

Concept of Environment:

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organization is “the aggregate of all conditions, events and influences that surround and effect it”.

External Environment:

1. Socio-cultural
2. Economic
3. Technological
4. Political & Legal

NOTES

Economic	Technological	Political & Legal	Socio-cultural
<ul style="list-style-type: none"> ▪ GDP trends ▪ Interest rates ▪ Inflation ▪ Type of economy ▪ Income ▪ Disposable income ▪ Wage-price control ▪ Money supply 	<ul style="list-style-type: none"> ▪ Spending by govt on R&D ▪ Industry spending on R&D ▪ Focus of technology ▪ Patent protection ▪ Productivity ▪ Communication & Infrastructural ▪ New products ▪ Commercialization of technology 	<ul style="list-style-type: none"> ▪ Type of Govt. ▪ Tax Laws ▪ Foreign trade regulations ▪ Constitutional framework ▪ Anti trust litigation ▪ Labor laws ▪ Attitude toward foreign co. ▪ Stability of govt 	<ul style="list-style-type: none"> ▪ Life-Style ▪ Religion ▪ Language ▪ Customs ▪ Age distribution ▪ Languages ▪ Growth rate of population

Table: 2.1 Some Important Variables in Mega Environment

Check Your Progress

What are the features of Indian Rural Markets?

2.2.2 Rural Economic Environment

NOTES

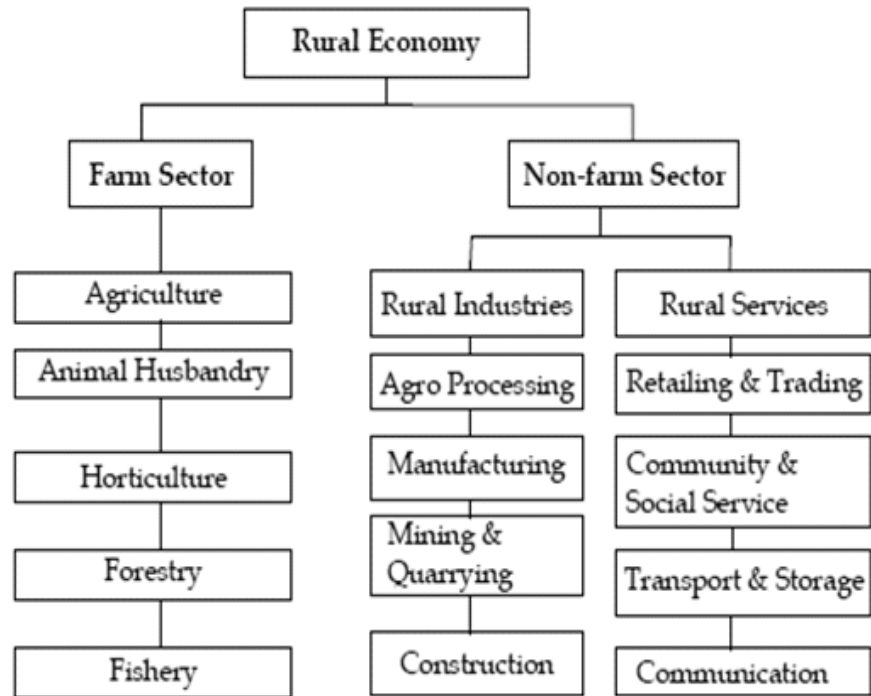


Table : 2.2

Jajmani System

1. A self-sufficient economy system
2. Revolved around the farmers who owned land
3. 'Specialist castes' who provided services to the farmers and to each other
4. System under threat due to urbanization that provided relief from exploitation.

Sources and Patterns of Income

1. Primary source is agriculture
2. No regular income throughout the year (Seasonality)
3. Cash only at the time of harvest
4. Marketers should notice of time of year when incomes are due

5. Crop patterns vary, and time of cash surpluses from harvests vary geographically
6. Cash crops and services leading to stable cash flows throughout the year.
7. Remittances from outside.

NOTES

2.2.3 Rural Socio-cultural Environment

Rural Socio-cultural Scenario

1. Religious bent of mind.
2. Social customs.
3. Caste system.
4. Gender Discrimination.
5. Literacy.
6. Cultural diversity.
7. Group influence on behavior.

Caste System

1. Brahmins at top, then kshatriyas, vaishyas, and the shudras at bottom.
2. Each have their sub castes.
3. Shudras suffered from entering places visited by top.
4. Change in zamindari system helps in abolition.
5. Marketers have to be sensitive on this issue.

2.2.4 Rural Political Environment

Political Environment

1. Historically controlled by upper castes (panchayat & village pradhan)
2. Then Panchayati raj system came into effect in which all government departments, such as; education, health, agriculture, development etc. form an integrated approach

for the development of rural areas.

NOTES

Panchayati Raj Institutions

1. Provide 3 tier system to panchayati raj for all the states population exceeding 2 mn.
3. To hold panchayat elections regularly every 5 years.
4. To provide reservations for SC/ST/Women at least 33%.
5. To appoint a state finance commission.
6. Preparation for economic development & social justice
7. To collect taxes, duties, tolls & fees.

2.2.5 Rural Technological Environment

Technological Environment

It is triggered by three main revolutions:

1. Green revolution
2. White revolution
3. Introduction of non-govt. agencies in the development sector.

Green Revolution

1. Period under 1967-1978 aimed to improve in food self sufficiency.
2. Introduction of mechanization first time.
3. Increase in farm production also introduced mechanized processing spurring growth of manufacturing sector.
4. Boosted farm productivity, employment creation, standard of living changes.

White Revolution

1. Aims for achieving self sufficiency in milk products by the govt.

2. Develops linkage between rural producers & urban consumers.
3. Formation of producers cooperatives which institutionalizing & producing processing milk.
4. Milk production increases almost 5 folds (from 1950 to 2001)
5. Areas effected Gujarat, Punjab, Haryana, U.P.

NGO Movement

1. Provide numerous services for up gradation of rural sector.
2. Helps in providing assistance of technological extensions in rural areas.
3. Also providing basic health and child care services education training opportunities which
4. helps in development.

2.3 Features of Indian Rural Markets

1. ***Large and Scattered Market:*** The rural market of India is large and scattered in the sense that it consists of over 63 crore consumers from 5, 70,000 villages spread throughout the country.
2. ***Major Income from Agriculture:*** Nearly 60 % of the rural income is from agriculture. Hence rural prosperity is tied with agricultural prosperity. Roughly speaking, a location is defined as “rural”, if 75 per cent of the population is engaged in agriculture related activity. In India, close to 70 per cent of the population is agrarian and contributes to about one-third of India’s GNP.
3. ***Low Standard of Living:*** The consumers in the village area do have a low standard of living because of low literacy, low per capita income, social backwardness, low savings, etc.

NOTES

NOTES

4. **Traditional Outlook:** The rural consumer values old customs and tradition. They do not prefer changes.
5. **Diverse Socio-Economic Backwardness:** Rural consumers have diverse socio-economic backwardness. This is different in different parts of the country.
6. **Infrastructure Facilities:** The Infrastructure Facilities like roads, warehouses, communication system, and financial facilities are inadequate in rural areas. Hence physical distribution becomes costly due to inadequate Infrastructure Facilities.

2.4 Understanding Rural Markets

There has been always a vast difference between the two markets for a long time now. The difference is not only between urban and rural but also within the rural areas – between regions, states and districts. There is a difference in the media reach, the education levels, in the culture and the type of products that the two markets are exposed to and this leads to a difference in the two markets.

The difference is in things like – how do you celebrate New Year, how do you celebrate birthdays? Small things like these are celebrated in a completely different manner when the rural and the urban customers are concerned. There is a vast difference in the lifestyles of the people in the two regions. The kind of choices of brands that an urban customer enjoys is different from the choices available to the rural counterparts. The rural customer usually has 2 or 3 brands to choose from whereas the urban one has multiple choices. The difference is also in the way of thinking. The rural customer has a fairly simple thinking as compared to the urban counterpart. But with technology coming in, mass media reach and the literacy levels going up - this divide is expected to reduce. The

biggest thing is that there is lack of any research into the consumer behavior of the rural areas. There is considerable amount of data on the urban consumer regarding things like – who is the influencer, who is the buyer, how do they go and buy, how much money do they spend on their purchases, etc. but on the rural front – the effort has started to happen now. So there is a need to understand the buyer.

There is no collective effort. Some people have spent time in the rural markets, carried out studies and have understood the rural behavior, but their works have not been passed or known to the rest of the industry. So, an in depth understanding of the consumer is one key area that the industry needs to work on. There are vast differences in the rural areas as well. There are some 5, 60,000 villages and some 525 districts and each one is different from the other. The geographical spread is not as homogeneous as it is with the urban areas owing to vast cultural differences. So an in depth understanding of the areas is what is required. The field of rural marketing has been witnessing a lot of action from both the fast moving consumer goods (FMCG) sector and consumer products manufacturers but, there has been little success in the manner in which rural research is carried out. The limitation lies in the inadequate or unavailability of appropriate tools to evaluate the rural market behavior. The problem arises because of general lack of education resulting in low awareness about the products and hence the inability to respond to the queries of the researcher in these areas. Conventional research tools do not work in these markets, as these are difficult to comprehend for the illiterate and semi-literate rural people. The typical research scales used are for ranking, rating and attitude measurement, limiting the research questions to simple yes/no kinds that do not bring the true essence of the research process. In an effort to look in to this issue two students from Management Development Institute, Gurgaon along with Pradeep Kashyap, director of Marketing and Research Team (MART) tried working out on some possible solutions to this problem. The limitation of conventional

NOTES

NOTES

Check Your Progress

Explain the term “Green Revolution”?

research tools during the research project prompted them to look at alternative sources to solve this problem and the results were favorable. Colors are very strong indicators, and forms, of expressing the feelings in the rural areas and there are tools devised with colors that represent and reflect the right answer to the researchers’ queries. The selection of colors is done on the basis of the association of rural people with these colors. For instance, it has been observed that dark green represents a good crop or ‘Haryali’ (as they call it) and hence represents prosperity and is considered to be the best. Light green represents not very good crop and stands next to dark green color.

Yellow represents dry sand or a dry field and hence comes next. Orange is the color of the setting sun and represents the end of the day and hence is placed after yellow and just before red, a color that represents danger to them. Such hypothesis has been working well, according to MART, and it has incorporated these tools in its research projects. This is probably the beginning to a new form of research and analysis that might change the paradigm of rural marketing research and, who knows, one might just see this field blossom into a specialized research activity. If a simple ranking and rating is achieved, a lot can be explained about the rural preferences and behavior providing the marketers and manufacturers of goods specific to the rural markets get that meaningful insight to be able to help grow the markets in these areas.

2.5 Changing Profile of Rural Marketing

The position in the rural market was totally different some twenty years ago. At present there is a demand for certain articles like T. V., fans, radio, engine oil, readymade garments, detergents, medicines, etc. New product like toiletries, baby care products and consumer durables are now getting good support in the rural market.

Parle Agro is marketing 80% of its sale in the rural areas. Batliboi and Co. Ltd. is a leading marketer in agricultural implements. Hindustan Lever sells its products like soaps, shampoos, face cream, etc. in all rural markets on a large scale. Kirloskar and Crompton are leading rural marketers in diesel engines and agricultural machinery. In the service sector the Central Bank and Canara Bank are the largest banks in rural India. More and more manufacturers are turning towards rural markets because the urban are getting saturated. The Indian rural markets have turned out to be gold mine for the marketers in the nineties.

NOTES

2.6 Factors Contributing to the Growth of Rural Marketing

1. ***New Employment Opportunities:*** The income from new employment and rural development efforts launched in the rural areas has increased the purchasing power among the rural people. Self employment policy with the assistance from the bank has become a great success in the rural areas.
2. ***Green Revolution:*** A technological break through has taken place in Indian agriculture. Rural India derived considerable benefit from green revolution. Today, rural India generates 185 million tonnes of food grains per year and substantial output of various other agricultural products.
3. ***Expectation Revolution among Rural Masses:*** More than the green revolution, the revolution of ‘rising expectation’ of the rural people influenced the marketing environment of rural India. It brought about a powerful change in the environmental dynamics. It enlarged the desires as well as the awareness of the rural people.
4. ***Favorable Government Policies:*** As a part of the process of planned economic development, the government has been

NOTES

making concerted efforts towards rural development. The massive investment in the rural India has generated new employment, new income and new purchasing power. In the recent years as a part of new farm policy, high support prices are offered for farm products. Various measures like tax exemption in backward areas, subsidy, concessions, incentives, assistance, literacy drive in rural areas has brought rapid growth of rural markets.

5. **Literacy Growth:** The literacy rate is on the increase in the rural areas. This brings about a social and cultural change in the buying behaviour of the rural consumer. They are exposed to mass media which create new demand for goods and services.
6. **Growth in Income:** The rise in the income resulting from the new farming strategy is adding meaning and substance to the growing aspirations of the rural people. Remittances from Indians working abroad have also made a sizeable contribution to the growing rural income and purchasing power.
7. **Attraction for Higher Standard of Living:** The rural consumers have been motivated to change their consumption habits enjoy a higher standard of living by the growing awareness about better living and easy availability of information about the goods.
8. **Marketing Efforts:** Firms like Bajaj, HUL, etc., have started penetrating the rural market realizing the rising expectations and the demand revolution in the rural India.

2.7 Summary

- About 76% of the Indian people reside in rural areas.
- The Infrastructure Facilities like roads, warehouses,

communication system, and financial facilities are inadequate in rural areas.

- A more equitable distribution in rural areas would also help in slowing down the rapidly increasing influx of people from rural to urban areas.
- The biggest thing is that there is lack of any research into the consumer behavior of the rural areas.
- The limitation lies in the inadequate or unavailability of appropriate tools to evaluate the rural market behavior.
- A technological break through has taken place in Indian agriculture. Rural India derived considerable benefit from green revolution.
- The limitation lies in the inadequate or unavailability of appropriate tools to evaluate the rural market behavior.
- Parle Agro is marketing 80% of its sale in the rural areas. Batliboi and Co. Ltd. is a leading marketer in agricultural implements.
- The commercial banks and the co-operative have been marketing the saving habit in the rural areas for quite some years.

2.8 Key Terms

Attraction for Higher Standard of Living : The rural consumers have been motivated to change their consumption habits enjoy a higher standard of living by the growing awareness about better living and easy availability of information about the goods.

Green Revolution : A technological break through has taken place in Indian agriculture. Rural India derived considerable benefit from green revolution. Today, rural India generates 185 million tonnes of food grains per year and substantial output of various other agricultural products.

NOTES

NOTES

Growth in Income : The rise in the income resulting from the new farming strategy is adding meaning and substance to the growing aspirations of the rural people.

Literacy Growth : The literacy rate is on the increase in the rural areas. This brings about a social and cultural change in the buying behaviour of the rural consumer. They are exposed to mass media which create new demand for goods and services.

Marketing Efforts : Firms like Bajaj, HUL, etc., have started penetrating the rural market realizing the rising expectations and the demand revolution in the rural India.

2.9 Questions and Exercises

1. What are the features of Indian Rural Markets?
2. What are the factors contributing to growth of rural marketing?
3. Explain the changing profile of rural marketing.
4. Explain the term “Green Revolution”.
5. Describe the occupation pattern of Rural India.
6. Explain the Genesis of Amul.

Check Your Progress

Fill in the blanks:

1. The emergence of an active cash economy is bound to create
is bound to create a strong rural demand and promote
..... consumption.
2. The biggest thing is that there is lack of any research into the
..... behavior of the rural areas.
3. The population of India is concentrated in
3200 cities and towns and the rural population is scattered
over 6, 38,365 villages.

4. One of the deterrents for marketers to exploit the rural market has been the vastness of the rural market in terms of areas covered and the location of the rural population.
5. Rural consumers have diverse backwardness. State whether the following

NOTES

Statements are true or false:

1. The urban population of India is concentrated in 3200 cities and towns and the rural population is scattered over 6, 38,365 villages.
2. The Urban consumers have been drawn into the saving habit in a big way.
3. The personalised banks and the co-operative have been marketing the saving habit in the rural areas for quite some years.
4. It is estimated that there are 78% literate in rural India as compared with 365 of whole country.
5. The biggest thing is that there is lack of any research into the consumer behavior of the rural areas
6. The predominance of agriculture in the income pattern has one more significance-rural demand is more seasonal.

Multiple Choice Questions:

1. Self employment policy with the assistance from the bank has become a great success in the areas.
(a) villages (b) rural
(c) Urban (d) city
2. Remittances from Indians working abroad have also made a sizeable contribution to the growing rural income and power.
(a) production (b) financial

NOTES

- (c) distribution (d) purchasing
3. The literacy rate is on the in the rural areas.
(a) increase (b) decrease
(c) average (d) low
4. Kirloskar and Crompton are leading rural marketers in diesel engines and machinery.
(a) agricultural (b) business
(c) unit (d) firms

Answers:

1. Rural 2. Consumer 3. Urban 4. Potential 5. Socio-Economic
1. True 2. False 3. False 4. False 5. True 6. True
1. (b) 2. (d) 3. (a) 4. (a)

2.10 Further Reading and References

- Awadesh Kumar Singh, *Rural Marketing: Indian Perspective*, New Age International.
- Balkrishnan, Mandira Dutta (1978), “*Rural Marketing: Myth and Reality*”, *Economic and Political weekly*, August 1878, M-75 to M-80.
- Balram Dogra, *Rural Marketing*, McGraw Hill Companies.
- Dey, N.B and Adhikari, KingShuk (1998) “Rural Marketing challenges and opportunities”, *Yojana*, 42(5), May 1998,, p.21-22, 41.
- Gaikwad, V.K (1972), “A Research for the Rural Consumer”, *IN: New Opportunities in Changing Agriculture*, Ahmedabad: CMA(IIMA), 1972, pp 159-172.
- Jha Mithileswar (1998), “Rural Marketing: Some Conceptual issues”, *Economic and Political Weekly*, Vol XXIII(No. 9), February 27, 1998, pp M-8 to M-16.
- Kannan Shanthi (2001), “Rural Market – A world of

Opportunity”, *Hindu*, 11 October, 2011

- Kotler, P., & Armstrong, G. (2010). Principles of marketing. pearson education.
- McCracken, J., J, Pretty and G. Conway. (1988). *An Introduction to Rapid Rural Appraisal for Rural Development*. Iied, London, England.
- Pradeep Kashyap & Siddhartha Raut, *The Rural Marketing*, Biztantra.
- R.V. Bedi, N.V. Bedi, *Rural Marketing*, Himalaya Publishing.

NOTES

NOTES

UNIT 3: RURAL MARKETING MODEL

NOTES

- 3.0 Unit Objectives
- 3.1 Introduction
- 3.2 Rural Marketing Model
- 3.3 Significance of Rural Markets
- 3.4 Strategies for Rural Marketing
- 3.5 Problems Related to Rural Marketing
- 3.6 Emerging Trends in Markets
- 3.7 Need Based Production
- 3.8 Summary
- 3.9 Key Terms
- 3.10 Questions and Exercises
- 3.11 Further Reading and References

3.0 Unit Objectives

After reading this unit, you should be able to:

- Define Rural Marketing Model
- Discuss the significance of Rural Markets.
- Describe what makes Rural Markets Attractive?
- Explain the Problems related to Indian Rural Markets.

3.1 Introduction

Companies work marketing models before entering any market. They approach different models to reach the target market. They work in a organised way which gives the step-by-step process to implement. Depending upon the market the model may get slight

NOTES

change but the steps may remain same. The process help the companies to analyze the real market and launch their business. There should be a clarity in this so as to reach the success in the rural market.

3.2 Rural Marketing Model

The step-by-step process is research, segmentation, lifestyle analysis, profile study, defining needs, developing specific profile, target market, market mix, implementation and control. So, if these steps are followed like a model then the company can attain the success in the market.

- 1. Research:** A Research should be conducted before launching the business. The research may be primary or secondary one. If it is primary then it sounds good, as there will be more clarity about the business and opportunities. This is about studying the market before entering.
- 2. Segmentation:** The most important factor is the segmentation, as the rural market consists a of different groups and socio economic class. They have different lifestyles, cultures, economy and demography backgrounds. So the company should think of this and make the segmentation in a perfect manner. Depending upon the product and business the company should keep some parameters to make the segmentation. The parameters should be selected in such a way that its effects the demand of the product.
- 3. Lifestyle Analysis:** The people will be from different cultures and demographic background. So they will be having different lifestyles and needs. Depending upon their way of thinking and lifestyle the company need to understand to

think of their product. The lifestyle of the consumer makes an impact on the demand of the product. So by the analysis the company can draw their strategies to market the product.

4. **Profile Study:** The Company should develop a profiler for the rural consumers. The profile helps the company while designing the marketing mix. The profile should be in a proper manner which impacts the designing and marketing of the product. For developing such profiles local organizations can help out.
5. **Defining Needs:** The main theme of the company should look for the needs of the consumer. As from the above factors the marketer can be able to identify the needs which are suitable to their lifestyles. After that they should define the exact need of the customer. In general terms they should define the needs so as to work out on the target market.
6. **Target Market:** After so many steps of work flow process the company can easily identify that their product is going to match or not that is the way of matching in their marketing mix. With the rural market. So by doing all this the company can target a market from the segmented market. So by selecting a segment they can target the group with their strategies and marketing mix.
7. **Marketing Mix:** As we know that marketing mix of the company is the main component to reach the customers. As there is heterogeneous lifestyles and geographically diverted market so the company should design or modify the mix depending upon the customer needs. There should be a proper work out of 4A's of Marketing Mix. From the above steps the company can easily identify and can design their marketing mix to reach the market. So by doing this the company can attain the success.

NOTES

Check Your Progress

Describe the Rural Marketing Model?

NOTES

8. **Implementation:** Most of the companies feel that implementation is the major problem in rural market., due the factors influences the market. So for Implementation the channel players are important. They reached the last mile of rural market. So for the implementation there should be a full focus from the organization point of view. The planning and working should be in parallel, by which the implementation cannot be a failure.

9. **Control:** Last but not least, the important factor to think for the model. As there is a huge competition in the market, it will grow in a speedy manner. So there will be a lot of things that companies should always get to update. The R&D should be strong for those areas. There should be systematic process for the up to date communications. So that they cannot miss the feedback from the customers and work on those things. The timing for the analysis and action is very important here. The regional and local players can easily move in the market and modify their strategies. So that is why companies need to be with their channel partners to work their strategies. If they can implement it and control the things than the company can reach the customers easily and can attain the success rate. So from the above steps if the company does a work out on each step and implement perfectly than they can mark their success in the rural market.

3.3 Significance of Rural Markets

The rural markets are estimated to be growing fastly compared to the urban markets. The potentiality of rural markets is said to be like a 'woken up sleeping giant'. These facts are substantiated in a study of market growth conducted by various researches. In recent years, rural markets have acquired significance in countries like China

and India, as the overall growth of the economy has resulted into substantial increase in the purchasing power of the rural communities. On account of the green revolution in India, the rural areas are consuming a large quantity of industrial and urban manufactured products. In this context, a special marketing strategy, namely, *rural marketing* has taken shape. Sometimes, *rural marketing* is confused with *agricultural marketing* – the later de marketing of produce of the rural areas to the urban consumers or industrial consumers, whereas rural marketing involves delivering manufactured or processed inputs or services to rural producers or consumers.

NOTES

A number of factors have been recognized as responsible for the rural market boom to come into existence:

1. Increase in population and hence increase in demand.
2. A marked increase in the rural income due to agrarian prosperity.
3. Standard of living is also increasing in rural areas.
4. Large inflow of investment for rural development programmes from government and other sources.
5. Increased contact of rural people with their urban counterparts due to development of transport and wide communication network.
6. Increase in literacy and educational level and resultant inclination to sophisticated lives by the rural folks.
7. Inflow of foreign remittances and foreign made goods into rural areas.
8. Change in the land tenure systems causing a structural change in the ownership patterns and consequent changes in the buying behaviour.
9. Rural markets are laggards in picking up new products. This will help the companies to phase their marketing efforts. This

will also help to sell inventories of products out dated in urban markets.

NOTES

3.4 Strategies for Rural Marketing

Dynamics of rural markets differ from other market types, and similarly rural marketing strategies are also significantly different from the marketing strategies aimed at an urban or industrial consumer. Rural markets and rural marketing involve a number of strategies, which include :

- **Client and Location specific promotion** involves a strategy designed to be suitable to the location and the client.
- **Joint or co-operative promotion** strategy involves participation between the marketing agencies and the client.
- **‘Bundling of inputs’** denote a marketing strategy, in which several related items are sold to the target client, including arrangements of credit, after-sale service, and so on.
- **Management of demand** involves continuous market research of buyer’s needs and problems at various levels so that continuous improvements and innovations can be undertaken for a sustainable market performance.
- **Developmental marketing** refers to taking up marketing programmes keeping the development objective in mind and using various managerial and other inputs of marketing to achieve these objectives.
- **Media**, both traditional as well as the modern media, is used as a marketing strategy.
- **Unique Selling Propositions (USP)** involve presenting a theme with the product to attract the client to buy that particular product. For examples, some of famous Indian Farm equipment manufactures have coined catchy themes,

which they display along with the products, to attract the target client, that is the farmers. English version of some of such themes would read like:

- # The heartbeats of rural India
- # With new technique for a life time of company
- # For the sake of progress and prosperity
- **Extension Services** denote, in short, a system of attending to the missing links and providing therequired know-how.
- **Ethics in Business** form, as usual, an important plank for rural markets and rural marketing.
- **Partnership for sustainability** involves laying and building a foundation for continuous and long lasting relationship.
- **Selection of sales force:** The salesman in rural markets should be selected from the educated unemployed villagers, trained well and appointed as salesmen. The town-to-villages shuttling salesmen are to be replaced by stationary salesman in villages.

3.5 Problems Related to Rural Marketing

The rural market offers a vast untapped potential; it should also be recognized that it is not that easy to operate in rural market because of several problems. Rural marketing is thus a time consuming affair and requires considerable investments in terms of evolving appropriate strategies with a view to tackle the problems. The problems are :

- **Barter System-** In the developing country like India, even today the barter system i.e., exchange of goods for goods exists. This is a major obstacle in the way of development of rural marketing.
- **Underdeveloped People and Underdeveloped Markets**
The agricultural technology has tried to develop the people

NOTES

NOTES

Check Your Progress

Define Barter System?

and market in rural areas. Unfortunately, the impact of the technology is not felt uniformly through out the country. Some districts in Punjab, Hariyana or Western Uttar pradesh where rural consumer is somewhat comparable to his urban counterpart, there are large areas and groups of people who have remained beyond the technological breakthrough. In addition, the farmers with small agricultural land holdings have also been unable to take advantage of the new technology.

- **Lack of Proper Physical Communication Facilitie-** Nearly 50 percent of the villages in the country do not have all weather roads. Physical communication to these villages is highly expensive. Even today, most villages in eastern part of the country are inaccessible during monsoon season.
- **Inadequate Media Coverage for Rural Communication-** A large number of rural families in own radios and television sets there were also community radio and T.V sets. These have been used to diffuse agricultural technology to rural areas. However the coverage relating to marketing is inadequate.
- **Many Languages and Dialects** The number of languages and dialects vary from state to state region to region. This type of distribution of population warrants appropriate strategies to decide the extent of coverage of rural market.
- **Market Organization & Staff-** The size of the market organization and staff is very important, to manage market system effective control. However the existing organizational setup particularly at district and block level needs to be strengthened in order make the services on various aspects available to the farmers timely and also easily accessible to them.

- **Other Influencing Factors in Rural Marketing-** Natural calamities and Market conditions (demand, supply and price). Pests and diseases, Drought or too much rains, Primitive methods of cultivation, lack of proper storage facilities which exposes grain to rain and rats, Grading, Transport, Market Intelligence (up to date market prices to villagers), Long chain of middlemen (Large no. of intermediaries between cultivator and consumer, wholesalers and retailers, Fundamental practices (Market Dealers and Commission Agents get good part of sale of receipts).

NOTES

3.6 Emerging Trends in Markets

Most of the dealers have direct touch with the local farmers; these farmers need awareness about pests, disease, fertilizers, seeds, technology and recent developments. For this information, farmers mostly depend on local dealers.

- **Online Rural Market (Internet, Nicnet) :** Rural people can use the two-way communication through on – line service for crop information, purchases of Agri-inputs, consumer durable and sale of rural produce online at reasonable price. Farm information online marketing easily accessible in rural areas because of spread of telecommunication facilities all over India. Agricultural information can get through the Internet if each village has small information office.
- **Information through Local Agriculture Input Dealers :** For development of rural farmers the government may consider effective channel and keep information at dealers, for farmer education hang notice board and also train the dealer recent changes and developments in agriculture. National Chain Stores: large number of stores set up in different rural areas

NOTES

throughout the country by the same organization for marketing its products. Thus national chain stores can serve large number of customers in rural area.

- **Cost Benefit Analysis :** Cost benefit can be achieved through development of information technology at the doorsteps of villagers; most of the rural farmers need price information of agri-produce and inputs. If the information is available farmers can take quick decision where to sell their produce, if the price matches with local market farmer no need to go near by the city and waste of money & time it means farmers can enrich their financial strength.

3.7 Need Based Production

Supply plays major role in price of the rural produce, most of the farmers grow crops in particular seasons not through out the year, it causes oversupply in the market and drastic price cut in the agricultural produce. Now the information technology has been improving if the rural people enable to access the rural communication, farmers awareness can be created about crops and forecasting of future demand, market taste. Farmers can equates their produce to demand and supply, they can create farmers driven market rather than supply driven market. If the need based production system developed not only prices but also storage cost can be saved. It is possible now a days the concept of global village.

- **Market Driven Extension :** Agricultural extension is continuously going through renewal process where the focus includes a whole range of dimensions varying from institutional arrangements, privatization, decentralization, partnership, efficiency and participation. The most important change that influences the extension system is market forces.

There is a need for the present extension system to think of the market driven approach, which would cater the demands of farmers.

- **Processing Industry** : India is the second largest producer of fruits and vegetables in the world with an annual production of more than 110 million tones of fruit and vegetable only 1.3 percent of the output is processed by the organized sector commercially, the reason higher consumption in fresh form. However, as the packaging, transportation and processing capacities increase, the market for processed fruits and vegetables is projected to grow at the rate of about 20 % per annum. 100 % export oriented units (EOU) and Joint venture units required improving the processing industry.
- **Apanamandi /Kisan Mandi /Rythubazaar** : There is a need to promote direct agricultural marketing model through retail outlets of farmer's co-operatives in urban areas. The direct link between producers and consumers would work in two ways: one, by enabling farmers to take advantage of the high price and secondly, by putting downward pressure on the retail prices.
- **Rural Agri-Export** : Rural produce, raw fruits and vegetable, processing goods, have the potential market in Asian, Europe and western countries. Particularly Saudi countries have commendable potential for Indian rural produce.

NOTES

3.8 Summary

- A Research should be conducted before launching the business.
- The Company should develop a profiler for the rural consumers.

NOTES

- The main theme of the company should look for the needs of the consumer.
- Most of the companies feel that implementation is the major problem in rural market.
- The rural markets are estimated to be growing fastly compared to the urban markets.
- Rural markets are laggards in picking up new products.
- The agricultural technology has tried to develop the people and market in rural areas.
- A large number of rural families in own radios and television sets there were also community radio and T.V sets.
- Cost benefit can be achieved through development of information technology at the doorsteps of villagers.
- The most important change that influences the extension system is market forces.
- India is the second largest producer of fruits and vegetables in the world with an annual production of more than 110 million tones of fruit and vegetable.

3.9 Key Terms

Bundling of Inputs: It de a marketing strategy, in which several related items are sold to the target client, including arrangements of credit, after-sale service, and so on.

Developmental Marketing: It refers to taking up marketing programmes keeping the development objective in mind and using various managerial and other inputs of marketing to achieve these objectives.

Ethics in Business: Form, as usual, an important plank for rural markets and rural marketing.

Extension Services: It de, in short, a system of attending to the missing links and providing the required know-how.

Management of Demand: It involves continuous market research of buyer's needs and problems at various levels so that continuous improvements and innovations can be undertaken for a sustainable market performance.

Media: Both traditional as well as the modern media, is used as a marketing strategy.

Partnership for Sustainability: Involve laying and building a foundation for continuous and long lasting relationship.

Selection of Sales Force: The salesman in rural markets should be selected from the educated unemployed villagers, trained well and appointed as salesmen. The town-to-villages shuttling salesmen are to be replaced by stationary salesman in villages.

Unique Selling Propositions (USP): It presents a theme with the product to attract the client to buy that particular product. For examples, some of famous Indian Farm equipment manufactures have coined catchy themes, which they display along with the products, to attract the target lient, that is the farmers.

3.10 Questions and Exercises

1. Describe the Rural Marketing Model.
2. What are the problems related to rural marketing?
3. What are the significance of Rural Markets?
4. Explain the online Rural Market.
5. What is cost benefit analysis?
6. Define Barter System.
7. What does make Rural Market Attractive?
8. What are the emerging trends in Rural Marketing?
9. What do you mean by developmental marketing?
10. Explain the Lifestyle Analysis.

NOTES

Check Your Progress

Fill in the blanks:

NOTES

1. A should be conducted before launching the business.
2. The most important factor is the, as the rural market consists of different groups and socio economic class.
3. The people will be from different cultures and background.
4. The Company should develop a profile for the consumers.
5. The main theme of the company should look for the of the consumer.
6. Most of the companies feel that is the major problem in rural market.
7. The rural markets are estimated to be growing fastly compared to the markets.
8. A marked increase in the rural due to agrarian prosperity.

State whether the following statements are true or false:

1. Unique Selling Propositions (USP) involve presenting a theme with the product to attract the client to buy that particular product.
2. The buyer in rural markets should be selected from the educated unemployed villagers, trained well and appointed as salesmen.
3. Urban marketing is thus a time consuming affair and requires considerable investments in terms of evolving appropriate strategies with a view to tackle the problems.
4. Vertical communication to these villages is highly expensive.

5. The size of the market organization and staff is very important, to manage market system effective control.

Multiple Choice Questions:

1. Rural produce, raw fruits and vegetable, processing goods, have the potential market in Asian, Europe and countries.
- (a) eastern (b) western
(c) european (d) rural
2. Supply plays major role in price of the produce.
- (a) rural (b) urban
(c) high (d) low

Answers:

1. Research 2. Segmentation 3. Demographic 4. Rural 5. Needs
6. Implementation 7. Urban 8. Income 1. True 2. False
3. False 4. False 5. True 1. (b) 2. (a)

3.11 Further Reading and References

- Awadesh Kumar Singh, *Rural Marketing: Indian Perspective*, New Age International
- Balkrishnan, Mandira Dutta (1978), “*Rural Marketing: Myth and Reality*”, *Economic and Political weekly*, August 1878, M-75 to M-80.
- Balram Dogra, *Rural Marketing*, McGraw Hill Companies.
- Dey, N.B and Adhikari, KingShuk (1998) “Rural Marketing challenges and opportunities”, *Yojana*, 42(5), May 1998,, p.21-22, 41.
- Gaikwad, V.K (1972), “A Research for the Rural Consumer”, *IN: New Opportunities in Changing Agriculture*, Ahmedabad: CMA(IIMA), 1972, pp 159-172.

NOTES

NOTES

- Jha Mithileswar (1998), “Rural Marketing: Some Conceptual issues”, *Economic and Political Weekly*, Vol XXIII(No. 9), February 27, 1998, pp M-8 to M-16.
- Kannan Shanthi (2001), “Rural Market – A world of Opportunity”, *Hindu*, 11 October, 2011
- Kotler, P., & Armstrong, G. (2010). Principles of marketing. pearson education.
- McCracken, J., J, Pretty and G. Conway. (1988). *An Introduction to Rapid Rural Appraisal for Rural Development*. Iied, London, England.
- Pradeep Kashyap & Siddhartha Raut, *The Rural Marketing*, Biztantra.

UNIT 4 : RURAL CONSUMER BEHAVIOUR

*Rural Consumer
Behaviour*

NOTES

4.0 Unit Objectives

4.1 Introduction

4.2 Rural Consumer Behaviour

4.2.1 Factors Influencing Buying Behaviour

4.2.2 Cultural Factors Influencing Consumer Behaviour

4.3 Buying Process

4.4 Factors Affecting the Purchase Decision of the Rural Consumer

4.5 Opinion Leaders

4.6 Market Segmentation to the Lure Rural Customer

4.7 Organizational Buying Behaviour

4.8 Consumer Behaviour — Positivism and Interpretivism

4.9 Role Play Module

4.10 Summary

4.11 Key Terms

4.12 Questions and Exercises

4.13 Further Reading and References

4.0 Unit Objectives

After reading this unit, you should be able to:

- Define Rural Consumer Behaviour.
- Discuss the Buying Process.
- Describe the Consumer Behaviour Roles.
- Explain the Characteristics of Rural Consumer.

NOTES

4.1 Introduction

While analysing the purchase process in rural areas, we come to know that rural buyers need to be made aware of products through concept selling. Rural marketing involves bringing the fruits of development to the villagers, besides building relationships with them. The product demand is low per capita and hence the marketers must look for volume business. The demand is met by the unorganised sector to start with and by those adventurous marketers who venture into the rural domain. Consumers of rural markets are spread throughout the country side with low income levels, lack of education where income comes in seasonal spurts during harvesting time. Villagers are by and large content lot with fewer needs. They are also scared to try out new or innovative products. For high tech products village buyer finds it difficult to understand its usage, is in awe of the technology and buys only after peers who have seen the product in action buy the same. Because of low income, price becomes extremely important and rural demand is highly price sensitive. Companies use the village Bania shops to sell, whose proprietor is dealing with supply of kerosene oil and whose role as a money lender is still undisputed, in most areas. Marketers use meals, weekly haats, festival, fairs and publicity vans for demonstrations, advertising and for sales. These vans carry movie equipment and show regional language films to the villagers.

Products are mostly bought in assemble times when ready cash available, especially during festivals and harvesting season. Indian festivals coincide with the harvest times in most places. TV has become a popular entertainment media in villages and hence it is also an appropriate vehicle for product advertising. Radio, newspapers in local languages, wall hoardings, pamphlets cover most advertising media. Promotion of sales is done through gifts and price discounts.

4.2 Rural Consumer Behaviour

Consumer Buyer Behaviour refers to the buying behaviour of final consumers – individuals and households who buy goods and services for personal consumption. All of these final consumers combined make up the consumer market. The consumer market in this case is Rural India. About 70% of India's population lives in rural areas. There are more than 600,000 villages in the country as against about 300 cities and 4600 towns. Consumers in this huge segment have displayed vast differences in their purchase decisions and the product use. Villagers react differently to different products, colours, sizes, etc. in different parts of India. Thus utmost care in terms of understanding consumer psyche needs to be taken while marketing products to rural India. Thus, it is important to study the thought process that goes into making a purchase decision, so that marketers can reach this huge untapped segment.

4.2.1 Factors Influencing Buying Behaviour

The various factors that effect buying behaviour of in rural India are:

1. **Environmental of the consumer:** The environment or the surroundings, within which the consumer lives, has a very strong influence on the buyer behaviour, e.g.. Electrification, water supply affects demand for durables.
2. **Geographic influences:** The geographic location in which the rural consumer is located also speaks about the thought process of the consumer. For instance, villages in South India accept technology quicker than in other parts of India. Thus, HMT sells more winding watches in the north while they sell more quartz watches down south.

NOTES

Check Your Progress

What are the factors Influencing Buying Behaviour?

NOTES

3. **Influence of occupation:** The land owners and service clan buy more of Category II and Category III durables than agricultural laborers/farmers.
4. **Place of purchase** (60% prefer HAATS due to better quality, variety & price) Companies need to assess the influence of retailers on both consumers at village shops and at haats.
5. **Creative use of product:** For example, Godrej hair dye being used as a paint to colour horns of oxen, Washing machine being used for churning lassi. The study of product end provides indicators to the company on the need for education and also for new product ideas.
6. **Brand preference and loyalty** (80% of sale is branded items in 16 product categories).

4.2.2 Cultural Factors Influencing Consumer Behaviour

Cultural factors exert the broadest and deepest influence on consumer behaviour. The marketer needs to understand the role played by the buyer's culture. Culture is the most basic element that shapes a person's wants and behaviour.

In India, there are so many different cultures, which only goes on to make the marketer's job tougher. Some of the few cultural factors that influence buyer behaviour are:

1. **Product** (colour, size, design, shape): There are many examples that support this point. For example, the Tata Sumo, which was launched in rural India in a white colour, was not well accepted. But however, when the same Sumo was relaunched as Spacio (a different name) and in a bright yellow colour, with a larger seating capacity and ability to transport good, the acceptance was higher. Another good example

would be Philips audio systems. Urban India looks at technology with the viewpoint of 'the smaller the better'. However, in rural India, the viewpoint is totally opposite. That is the main reason for the large acceptance of big audio systems. Thus Philips makes audio systems, which are big in size and get accepted in rural India by their sheer size.

2. **Social practices:** There are so many different cultures, and each culture exhibits different social practices. For example, in a few villages they have common bath areas. Villagers used to buy one Lifebuoy cake and cut it into smaller bars. This helped lifebuoy to introduce smaller 75-gram soap bars, which could be used individually.
3. **Decision-making by male head:** The male in Indian culture has always been given the designation of key decision maker. For example, the Mukhiya's opinion (Head of the village), in most cases, is shared with the rest of the village. Even in a house the male head is the final decision maker. In rural areas, this trend is very prominent.

4.3 Buying Process

The most effective and therefore usual buying process involves the following areas:

1. Problem recognition
 2. Information search
 3. Evaluation of alternatives
 4. Purchase decision
 5. Post purchase behavior
1. **Problems Recognition:** Problem recognition is defined by obvious or inherent need of the consumer. The major aim of rural marketing research rests upon in trying to find out which

NOTES

are the key products of basic needs that the rural consumers are willing to purchase but facing problems to buy it.

NOTES

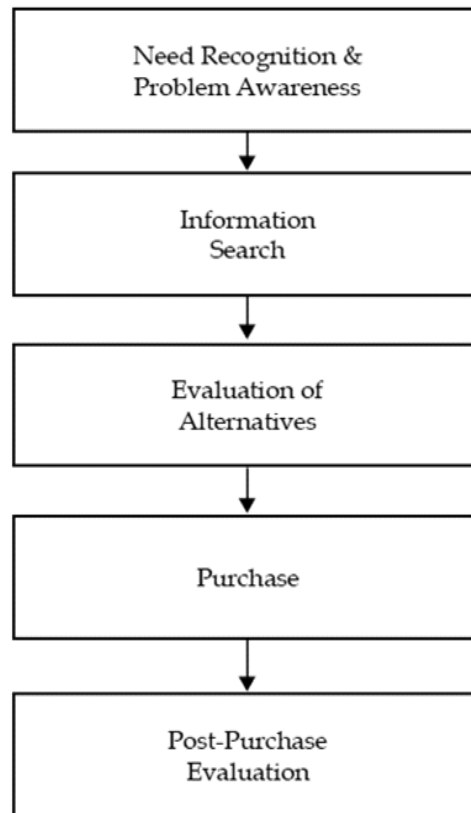


Fig 4.1 Buying Process

2. Information search: The marketing information search process is almost the same as for the urban markets as for the rural markets. It includes:

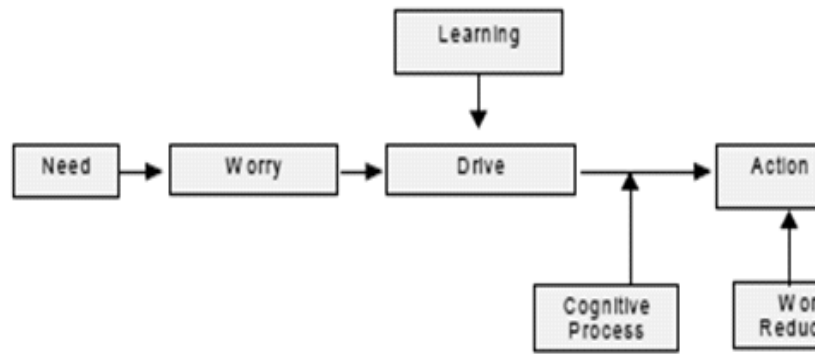
- *Personal sources:* Family, friends, neighbours
- *Commercial sources:* Advertisements, Salespersons, Dealers, Packages, Displays
- *Public Sources:* Mass media, Consumer rating organizations
- *Experiments self:* Handling the product, experiments, using samples of products like shampoo sachets.

3. Evaluation of Alternatives

- *Problem:* purchase of a tractor the decision criteria could be identified as follows:
 - (a) Price
 - (b) Manufacture/Model
 - (c) Support
 - (d) Repair record
 - (e) Warranties
 - (f) Reliability
 - (g) Multiple uses

4. Purchase Decision: Generally rests upon a number of factors including motivation and nature of their needs. The purchase decision of a consumer is also affected by changing nature of his goals and needs. When a particular goal or need cannot be fulfilled, a substitute goal emerges.

- *Purchase Behaviour of Customers :* Motivation is the inner urge, which propels people to buy. For example, seeing and smelling food gets people motivated to buy if they may not be hungry. Graph can be shown as on below.



NOTES

5. Post Purchase Behaviour: Post purchase behaviour comes from satisfaction, use and disposal after use. It may be based upon the consumer's own satisfaction arising due to his preference for a particular more profitable option of the

NOTES

available alternatives. Sometimes motivational research is conducted psychoanalysis of the consumer's mind to understand, the sometimes not so apparent reasons for their motives and post purchase behaviour.

- *Baking*: It conveys motherhood, femininity, love and caring; subconsciously the baking process is a substitute for the childbirth process.
- Ice cream is subconsciously associated with love and affection.
- Home maintenance kit defines the man and machismo.
- Beer represents active, alive people.
- In villages the chaupal represents the collective consciousness of the village.

4.4 Factors Affecting the Purchase Decision of the Rural Consumer

The rural consumer enquires more about the price and quality of a product before taking a final decision to buy it. He also takes into account the prospective use and utility out of the transaction he would make.

- **Price and Quality**
- **Stimulation**
- **Communication Process**
- **Persuasion Strategy**

4.5 Opinion Leaders

The villagers often take advice of some senior or educated person, who has knowledge about the product and its market and they take his opinion or advice to be dependable. Such person may be expert in a particular line. So he can be trusted to give correct

opinion on their choice of subject. Marketers, on the other hand would invariably give only the positive aspects of their products. In rural India the Sarpanch or Mukhiya or Pradhan is usually considered to be the opinion leader. Several times customers seek only information, and sometimes they ask for advice. Can we trace which of the following statements of opinion leaders is information and which is advice?

1. Which is the best Gent's shoe for formal wear? "In my view, Bata is still the best".
2. How to use the vacuum cleaner? "I use it once a week to clean the carpet, the curtains, the floors and the ceiling. You could do the same".
3. Where to take my Maruti for servicing in Delhi? "There is no better place than Competent Motors, my dear".
4. Where can I get a gift for my girl/boy friend? "Try Giggles in CP and you will not go wrong".

As can be seen Opinion-leaders are mostly "product" specific. Similarly, their decision may vary from products to product. You will not ask your milkman where to buy computer software. In case of doubt, people take second or even third opinion until they are satisfied with the opinion. People with set ideas, often stop after they have got an opinion, which agrees, to their own thinking. Such subjective opinions can be misleading resulting in wrong decisions. Advertisers extend the theory of opinion leadership in advertising by using the leaders as product endorsers.

Self-image

Self-image is the some total of a person as he thinks about himself and it is a guiding factor in purchase decision along with wisdom of opinion leaders. A person may have the following feeling in his mind while making a decision to purchase a particular item,

NOTES

like, What type of person am I? What image do I project to outsiders?
How do people view my personality?,

NOTES

Consumer Perception

Consumer Perception is the consumer's view of the things including messages and stimuli seen/focused on him. These perceptions are given or acquired by visual stimulus, like seeing pictures of products in advertisements, hearing about the products from friends and looking through retail shops, Point of Purchase (POP) material that create a visual impact.

4.6 Market Segmentation to the Lure Rural Customer

Marketing and communicating to the target market segment, of new innovative product calls for sustained efforts of advertising, personal selling and word of mouth appreciation of product over a period of time.

A company may launch its new product to meet the needs and requirements of the rural customers. These Consumer based new products are the one's which the consumers find totally new. These innovative or the new products are seen by the firm as new to it. The firm may ignore the fact the product may not be new to the market as competitors may already have introduced the same. Product innovation takes into account the features, which are unique to the product. One refrigerator manufacturer is claiming novel door cooling system, not available in other refrigerators.

The new product development can be on a continuous basis or on one-off base. Telephone industry has had both types of innovations. Consumers look for relative advantages in each product. Also the expense of making change and product's compatibility with other products with the consumer too plays an important role in

Check Your Progress

What do you know about compulsive Buying Behaviour?

buying new products. For example, the modem, and printer should be able to work with the computer before they are purchased.

4.7 Organizational Buying Behaviour

Villages too have manufacturing units either in small sector or even as cottage industry. For organizations involved in manufacturing goods purchase, raw materials and components needed in the manufacturing process. They also buy consumables like electricity, water and gasses, which are consumed, in the manufacturing process. Such purchases by the firms have the following characteristics :

- Fewer buyers but large quantity buyers
- Close supplier and buyer relationship
- Geographic concentration of buyers
- Derived demand
- Inelastic demand/Fluctuating demand
- Professional purchasing
- Several buying influences

4.8 Consumer Behaviour - Positivism and Interpretivism

Attitudes play an important role in purchase actions and it is necessary to understand as to how they are formed.

1. Direct experience from using the product, “The soap is to hard.”
2. Influence of family and friends, “Son, buy only Honda motorcycle, it is the best value for money.”
3. Direct marketing, Eureka Forbes salesman in your house,

NOTES

NOTES

“See for yourself how easy it is to use the vacuum cleaner, Sir.”

4. Exposure to advertisements, wife to husband, “See the mixer grinder ad on the TV and you would agree it is the best value for money.”
5. Personality factor, “I cannot buy a motorcycle, only a car would do for me.” Attitudes has four functions :
 - Utilitarian function or brand utility
 - Ego-defensive function in which product enhances self concept
 - Value expressive function where consumer values, lifestyle are reflected
 - Knowledge function that fulfills need to know

Also, there can be a combination of several of these functions.

The task before buyers is one of resolving conflicting attitudes as given below:

1. Tasty v/s healthy food, pizza or fruit cream
2. Quality v/s price, Wipro PC or the assembled one
3. Sturdy v/s elegant, jeans or silk

The decisions are taken on purchases on the following considerations:

1. The Family
2. Economics
3. Emotional support
4. Lifestyle
5. Family socialization through adoption of manners, values, goals

Family Consumer Roles

- Husband/wife
- Children
- Teens

Family lifecycle, where lifestyle keeps changing as can be seen from the following:

1. Bachelor - mostly carefree
2. Honeymooners - need affordable luxuries
3. Parents - young children - need baby products
4. Parents - teenage children - need teen fad products, like FM Radio
5. Parents with children away from home, need health care products
6. Dissolution - old age homes

Designing Persuasive Communication

- Proper market segmentation
- If product transcends segmentation give umbrella messaging for all audience
- Good PR
- Media plan, in which consumer profile should match with media audience profile
- Each media is effective for some products, audiences and advertising objectives
- Overlapping audience

Purchase Decisions Plan

- Problem recognition when the need tends to become acute.
- In rural markets the opinions of elders, those who have travelled outside counts a lot.
- **Information search:** The sources are personal family, friends, neighbours, acquaintances, commercial-advertising, salesmen, dealers, packaging, displays, public source, consumer ating organizations, experiential-handling, or by examining, and using the product.

NOTES

NOTES

- **Evaluation of alternative brands with weight** : age given on parameters decided by you, for e.g.
 - # Cameras - size weight, auto-focus, zoom, speed, price,
 - # Hotels - location, cleanliness, atmosphere and price.
- **Purchase Decision:** There can be a situation where after deciding to buy you delay or even cancel the purchase. Sometimes if people close to you have a negative attitude towards the product you may not buy it. Secondly, there may be a change in situation.

Post Purchase Decisions

- The product could satisfy you.
- If you are not satisfied then you could try to reverse the purchase action, or sell off the product.

Let us discuss the Indian buyer's purchases of some common FMCG products.

1. Washing powder sells about 30% less than washing soap cakes.
2. Toilet soap sells about 50% of washing soap cakes.
3. Electric bulbs sell six times than the tube lights.
4. Nail polish sells about the same as lipsticks.
5. Leather shoes sell 50% than the casual shoes.

4.9 Role Play Module

The company CEO discusses product planning with his team.

- **CEO:** "We are interested in starting rural marketing and hence would like to know from you regarding the suitability of our detergent powder Sirf. What do you have to say?"

- **Marketing Director:** “Since we enjoy a good market share in the urban markets, I am sure the rural customers must have heard about our Sirf. However, I am not confident that the rural buyers can afford our Sirf.”
- **Finance Director:** “Sir, may be the marketing director is right, but there is no way we can even think of reducing the product price. As you are fully aware our margins have been totally eroded since the competitors introduced the Blue band in the market.”
- **HR Director:** “My cousin who lives in the nearby village of Shapur is using the Blue Band and the competitors have already gone into the village markets.”
- **CEO:** “See if a new comer can do it why cannot we do the same or even better? You need to look at the price structure, especially the packaging element and the transportation costs. Find out how the Blue band is doing in these two areas.”
- **Marketing Director:** “Sir, they are using low cost but attractive cardboard box for packing and they are using their contract carriers. If we also hire carriers on hire and plan a low cost but attractive package we should get a good market share even though we are starting a little later than our major competitors.”
- **CEO:** “This time I will accept your suggestions and I am giving you the green signal. In future, please be alert to market opportunities to take advantage of the same, before competition does it. In other words please be proactive rather than remain in the reactive mode to competitive action.” The meeting ended on the decision taken by the CEO. Plan a similar dialogue that focuses on the point of entry in the rural markets, with regards to product selection.

NOTES

NOTES

Case Study

Empowering Rural India

India's President has shown his anxiety as well as satisfaction on the developmental activities connected with the country's rural development. Given below is what he had to say on the various pertinent issues. The country is facing immense growth in the economic areas and foreign exchange reserves. With reduction in inflation rates, India is being recognised as a technically competent country. It has the energy of 540 million youth, 20 million NRIs, and the interest of developed countries in investing in Indian engineers and scientists and our research laboratories. The President wants scheme that would bridge the urban rural divide and these schemes have been designated PURA (putting rural on equal footing as urban India). The government has planned growth at the rate of 7-8 percent annually to increase the welfare of farmers, workers with entrepreneurs and engineers going full steam for progress. He believes that the time has come to bridge the urban-rural divide. The President wants to empower rural India. President's approach is divided in five parts:

- The first part is for urban India's experiences with the Knowledge Centres.
- The second part is for village knowledge centres.
- The third part is dealing with PURA in action.
- The fourth part presents the working domain services for effective knowledge acquisition to the PURA complexes.
- The fifth part is a consolidation of data needed for farmers, fishermen and the entire rural population in an integrated way for sustainable development.

The President has given examples of the following villages:

- Nagapattinam which has a Village Resource Centre.

- Ettimadi Coimbatore that has six Village Resource Centres inaugurated by the President.
- Mellur Taluk that has centre for providing knowledge connectivity to the villages.

It is a pity that even after nearly sixty years of independence and with several laudable schemes the villages of the country have remained poor, uneducated and without basic facilities like medical care and drinking water. What happens between the sanction and disbursement of funds and the implementation of the schemes? Is the bureaucracy, the middlemen or just inadequate funding to be blamed.

Question

1. Look for any lacunae in the schemes and suggest remedial actions for them to succeed.
2. How the government can empower the villagers is the vital question. Can it be done through Panchayats or through the government machinery's Block Development Organisation?

4.10 Summary

- Problem recognition is defined by obvious or inherent need of the consumer.
- Goal substitution occurs on non-attainment of goal.
- Behaviour is oriented towards achieving personal goals.
- Sigmund Freud developed the psychoanalytical theory of personality
- Feeling and sensing types believe in their own selves, are subjective and they consult others during decision-making.
- Some rural customers may be of dogmatic type with rigid behaviour pattern.

NOTES

NOTES

- Attitudes are predisposition levels that people have towards a product or an idea.
- Communication Process is planned taking into account the target market segment and the mind set of the people of the segment.
- Computer addicts would be surfing the Internet and the best media for communicating to them about software updates would be the web.
- Villages too have manufacturing units either in small sector or even as cottage industry.
- Consumer behaviour in organizational buying therefore becomes complex, with a number of persons involved in the decision-making.

4.11 Key Terms

Approvers: These are the people with power of approving the purchase like Chief Executive Officers and Managing Directors.

Consumer Perception: Consumer Perception is the consumer's view of the things including messages and stimuli seen/focused on him. These perceptions are given or acquired by visual stimulus, like seeing pictures of products in advertisements, hearing about the products from friends and looking through retail shops, point of purchase (POP) material that create a visual impact.

Deciders: These are the authorized people who can decide spending of money for making the purchase. They are of the rank of General Managers.

Gatekeepers: These are those who filter information and see to it that only relevant information reaches the decision-makers about the product. These could be receptionists, purchasing agents etc.

Influencers: These are the people who influence the purchase decision, or e.g. which brand or model to buy, and from which

dealer. These could be R&D Managers, or consultants.

Initiators: These are the people who place the requirement of the product before the firm's authorities. In most firms they would be either R& D persons or purchase executives.

Interpretivism: Understanding the stimulus needed to achieve purchase activity.

Positivism: Rationale of customers purchase activities.

Users: These are the people who define the product with specifications and would ultimately use it. They would be R&D engineers, production engineers etc.

NOTES

4.12 Questions and Exercises

1. What are the factors Influencing Buying Behaviour?
2. Describe the cultural factors influencing consume behaviour.
3. Discuss the Buying process.
4. Explain the purchase Behaviour of Customers.
5. What do you know about compulsive Buying Behaviour?
6. Describe the communication process..
7. Describe the opinion Leaders.
8. Discuss the buying action. Differentiate between rural and urban buyers.
9. Discuss the role of endorser in buying decision.

Check Your Progress

Fill in the blanks:

1. is defined by obvious or inherent need of the consumer.
2. comes in the form of personal influence of some person who counts.
3. are predisposition levels that people have towards a product or an idea.

NOTES

4. have to position their products in the right market segment to ensure that positive mental image is formed and that it stays there.
5. The search process is almost the same as for the urban markets as for the rural markets.
6. levels are important guides for consumer behaviour study.
7. A company may launch its new product to meet the needs and requirements of the customers.
8. The of raw materials is derived from the plan of manufacture of products, which use the material.
9. takes into account the features, which are unique to the product.
10. are the people who place the requirement of the product before the firm's authorities.
11. are the authorized people who can decide spending of money for making the purchase.

Multiple Choice Questions:

1. Goal substitution occurs on non-attainment of:
(a) Target (b) Goal
(c) Customer (d) Promotion
2. Ego-defensive function in which product enhances:
(a) Knowledge (b) Speed
(c) Self Concept (d) Confidence
3. A company may launch its new product to meet the needs and requirements of the:
(a) Rural Customers (b) Urban Customers
(c) Hitech Customers (d) Loyal Customers
4. Self-image is the some total of a person as he thinks about himself and it is a guiding factor in purchase decision along with wisdom of opinion leaders.

- (a) Opinion Leaders
- (c) Judge

- (b) Group Leaders
- (d) Common People

Answers:

1. Problem Recognition 2. Persuasion 3. Attitudes 4. Marketers 5. Marketing Information 6. Stimulation 7. Rural 8. Demand 9. Product Innovation 10. Initiators 11. Deciders 1. (b) 2. (c) 3. (a) 4. (a)

NOTES

4.13 Further Reading and References

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International.
- Balkrishnan, Mandira Dutta (1978), “Rural Marketing: Myth and Reality”, Economic and Political weekly, August 1878, M-75 to M-80.
- Balram Dogra, Rural Marketing, McGraw Hill Companies.
- Dey, N.B and Adhikari, KingShuk (1998) “Rural Marketing challenges an opportunities”, Yojana, 42(5), May 1998,, p.21-22, 41.
- Gaikwad, V.K (1972), “A Research for the Rural Consumer”, IN: New Opportunities in Changing Agriculture, Ahmedabad: CMA(IIMA), 1972, pp 159-172.
- Jha Mithileswar (1998), “Rural Marketing: Some Conceptual issues”, Economic and Political Weekly, Vol XXIII(No. 9), February 27, 1998, pp M-8 to M-16.
- Kannan Shanthi (2001), “Rural Market – A world of Opportunity”, Hindu, 11 October, 2011
- Kotler, P., & Armstrong, G. (2010). Principles of marketing. pearson education.

***Rural Consumer
Behaviour***

NOTES

- McCracken, J., J, Pretty and G. Conway. (1988). An Introduction to Rapid Rural Appraisal for Rural Development. Iied, London, England.
- Pradeep Kashyap & Siddhartha Raut, The Rural Marketing, Biztantra.R.V. Bedi, N.V. Bedi, Rural Marketing, Himalaya Publishing.
- Rajagopal, Development of Agricultural Marketing in India Print well (Jaipur). Shepherd, A. (1999), “A guide to maize marketing for extension officers”. Extension Guide 1, Marketing & Rural Finance Service. FAO, Rome.
- T.P. Gopal Swamy, Rural Marketing, Wheeler Publishing (New Delhi) 1998. CMIE Report.

UNIT 5 : RURAL CONSUMER

NOTES

5.0 Unit Objectives

5.1 Introduction

5.2 Lifestyle of Rural Consumer

5.3 The Elusive Average for Rural Consumer

5.4 Influence of the Larger Environment on Rural Consumers

5.5 Occupation and Consumption Pattern

5.6 Place of Purchase Variations

5.7 Social and Behavioural Influences

5.8 Attitude to Quality and Price

5.9 Brand Preference and Loyalty

5.10 Heterogeneity of Rural Consumers

5.11 Segmentation Opportunity

5.12 Summary

5.13 Key Terms

5.14 Questions and Exercises

5.15 Further Reading and References

5.0 Unit Objectives

After reading this unit, you should be able to:

- Discuss the Lifestyle of Rural Consumer.
- Describe the Heterogeneity of Rural Consumers.
- Explain the Occupation and Consumer Pattern of Rural Consumers.
- Describe the Elusive Average for Rural Consumer.

NOTES

5.1 Introduction

The focus of this unit is on the buying behaviour of rural consumers. It covers the lifestyle, behaviour variations and influences on rural consumers. Variations in lifestyle indicate opportunity for the marketer. Examining the lifestyle of the rural consumer helps to understand the consumption pattern and the influence of the environment on consumer behaviour. It has been found that products developed to meet the needs of the rural consumer are more widely accepted than products developed for urban markets. The influence of geography and occupation on consumer behaviour patterns is also examined. The rural consumer's place of purchase and product-use is diverse and also does not necessarily reflect the behaviour seen among urban consumers. Influences on rural consumer behaviour include environment, cultural practices, perceptions and attitudes. The variations reflected in the design of product and messages are the result of strategic marketing decision-making.

5.2 Lifestyle of Rural Consumer

The popular image of a rural consumer is of one who has limited educational background, is exposed to limited products and brands, chooses price over quality, and is influenced by word-of-mouth communication. There is also the view that a rural consumer is no different from his urban counterpart. Changing consumption patterns reflect the evolving lifestyle of rural consumers. The increase in the purchase and use of products was noted in the previous chapter while examining the growing importance of rural markets. The influences on the behaviour of the rural consumer are also changing. The lifestyle of rural consumers is influenced by :

1. Increasing incomes and income distribution.

2. Marketers' efforts to reach out and educate potential consumers.
3. The situation in which the consumer utilises the product.

This last point is usually an overriding factor. Understanding the product-use situation creates opportunities for marketers. This is because the rural environment does not have the infrastructure facilities available in urban areas, which affect the consumption of both durable and non-durable products.

5.3 The Elusive Average for Rural Consumer

Since a stereotype of the rural consumer or of rural consumer behaviour is absent, it creates problems as well as opportunities for the marketer. Variations in behaviour reflect geographical, demographic and behavioural influences on lifestyle, which provides marketers with options to segment the market. The creative use of products suggests possibilities for market development. Behavioural bases for segmenting could be socio-cultural or consumer perceptions and attitudes.

Geographic and Demographic Influences on Behaviour Variations

To understand rural buying behaviour, a marketer must first understand (a) the factors that influence buying behaviour and (b) the variations in behaviour. These help to generate information upon which a marketer can create bases to segment the rural market taking the following factors into consideration:

1. Environment of the consumer
2. Geographical influences
3. Influence of occupation
4. Place of purchase
5. Creative use of products

NOTES

Check Your Progress

Explain the Lifestyle of Rural Consumer?

The behaviour variations that are unique to rural markets are influenced by the place of purchase and occupation and sometimes get reflected in the creative application or use of products.

5.4 Influence of the Larger Environment on Rural Consumers

A villager's needs are different from those of an urban consumer. The environment is a critical influence in shaping the needs of rural consumers. Products made to urban specifications may be impractical in rural settings. An excellent example is that of electrical and electronic goods. Virtually all radios, cassette players and television sets are made to urban power supply specifications. In many villages, particularly in power-strapped states, voltages fluctuate wildly, making electrical products susceptible to frequent breakdowns. Rural consumers may not mind paying more for products like the television or radio if they can withstand frequent voltage fluctuations.

Geographical Variations in Market Behaviour

The rural market is not a homogeneous one. Variations in economic development and in consumer willingness to accept innovations are evident in rural markets. Geographical variations in exposure to urban centers and variations in development have resulted in tremendous heterogeneity even within a state, for example, the difference between parts of western and eastern Uttar Pradesh (UP) is extreme. Differences exist between western UP and eastern UP for bullock cart tyres. While bullock carts in western UP are smaller vehicles with single buffaloes, in eastern UP, they are bigger vehicles pulled by two bullocks. In western UP, villagers speak Hindustani whereas in eastern UP they speak Bhojpuri. These have implications for product and promotion decisions (Rajan, 2005).

5.5 Occupation and Consumption Pattern

The perception that the rural consumer is either a farmer or an agricultural labourer restricts marketing effectiveness. In fact, there are other groups of consumers with different needs and behaviour and having significant purchase volumes. Occupation profiles of owners of three popular consumer durables indicate that the nonagricultural occupation groups of shopkeepers or traders and those employed in service (government administration jobs, banks, teachers, other professionals, etc.) are the high consumption segment. Television owners in the service class constitute 43 per cent, which means one in two persons owns a television set. In the case of the other non-agricultural group, the shopkeepers and traders, one in three owns a television.

5.6 Place of Purchase Variations

Not all rural consumers buy from the same location. It is also true that the same consumer could buy from different locations depending on the product and the need. A study on *haats* indicates that, despite the same product being available in the village shop, 58 per cent of the rural consumers visiting the *haats* preferred to buy these from a *haat* because of better prices, quality and variety (Kashyap, 1998). Rural consumers do not rely on the local outlets and *haats* alone, as some of the purchases are made in the urban areas This is because:

1. There are a few product categories where rural distribution is still comparatively low and therefore the consumer buys from towns. It was observed that for certain categories of FMCG, the rural consumers made as high as 50 per cent of their purchases from the urban markets. In the case of

NOTES

NOTES

products where the rural dealer penetration is low, the purchase from the urban centers is high. Shaving cream has a low dealer penetration and 37 per cent of the purchase is from urban centres. Tea has a high dealer penetration of 65 per cent in rural markets and in this case 25 per cent of the purchases made by rural consumers are from the urban markets (ORG-MARG, 2000).

2. In certain cases, the consumer seeks variety. In the case of toilet soaps and washing powder, the range in villages may be perceived as limited by the consumers.

5.7 Social and Behavioural Influences

The rural consumer is influenced by the environment and also by his or her wants and perceptions. Understanding the social and attitudinal influences on rural consumer behavior is important to the marketer, as these serve as a guide to decisions on product offering, pricing, distribution, media and message; in effect forming the 'rural marketing strategy' The social-cultural influences on behaviour need understanding for developing an effective marketing strategy.

Social Influence : The Role of Relevant Others in Purchase and Use Behaviour

The relevant others include family members, members of the social groups and retailers. The influencers vary according to the type of product purchased. Youth and children influence purchases in rural areas. Youth in the age group of 15 to 25 years influence purchase in rural areas. Children in the age group between 8 and 15 years also influence most purchases. This is largely because children tend to retain messages and often playback these messages to others. Also, children are sent by their mothers to

purchase something without specifying a brand. They ask for products they have seen or heard on radio or TV (Khatri, 2002).

The influence of children on choice is mostly for personal care products. For other products, the rural consumer gets information from multiple sources, including children, but opinion leaders have a substantial influence on the decision-making process of a rural consumer. The influencing members in the community include the village elders as also the educated youth of the village (Rajan, 2005). Retailers also influence consumers in rural markets. An important reason for this is the credit that the retailer extends to many of his customers. This is true for FMCG purchases where the *sarpanch* and other senior leaders have little or no influence (Khatri, 2002).

Cultural and Social Practices and Consumer Behaviour

The cultural and social practices have a major influence on the behaviour of the rural consumer. The widely dispersed villages and limited communication helped preserve traditions in the rural markets. Increasing access to urban areas and information dissemination possibly reduces the influence of traditions. Till such time that cultural influences persist the marketer has to:

- Develop products that suit the cultural practices of the rural consumer.
- Identify a suitable target audience and design media and message that reflect the social behaviour.
- Design the distribution to reach the places or outlets from where the consumer has been traditionally making his purchase.

The influence of culture reveals itself in consumer preferences for product features, product size, shape and colour. For instance, the preference for large audio equipments is a reflection of this

NOTES

NOTES

influence. The information source is also influenced by social practices. Since villages have common washing areas, purchases like toilet soap and toothpaste, which are usually private in an urban household, are known to all. It provides immense status to brush your teeth with a toothpaste or use a detergent to wash clothes (Joshi, 1991). In typical farming communities, it is the men who do the purchasing—women are not often allowed to step outside the home. Since men usually spend most of their days working in the field, they find it convenient to do their shopping for nondurables like soaps and detergents and commodities like edible oils and sugar once a week at the nearest *haat*. Items like clothing and durables are usually purchased on an annual basis at a *mela* (Ghosh, 1994). *Melas* are a prominent feature of Indian rural life, held periodically or annually to commemorate important events or to honour a deity. Farmers, flush with funds after harvest, frequent *melas* with their families. Women, who are ordinarily restricted from moving out of the village, have universal social sanction to visit the *mela*.

Perception and its Influence on Product Design and Message

The marketer who seeks to modify the behaviour of the rural consumer needs to influence the consumer's perception and attitude. It is here that the marketer has to be careful in designing products and developing message for the rural market. The decision variables of product and message are critical to marketing effectiveness in rural markets as the colour, shape and actions that hold meaning for rural consumers are different from those held by the urban consumers. Consumer's interpretation of product and promotion contribute to creating the position for the product. The interpretations of the rural consumer differ from those of the urban consumers. Colours are interpreted differently, so are sizes and shapes. The lower literacy levels in the rural markets increase the importance of the perceptual influences. In interior markets, brand identification is through visual

patterns - a red soap cake signifies Lifebuoy soap. The strong influence of perceptions on rural consumers provides a good reason for the marketer to develop separate marketing strategy for the rural market.

5.8 Attitude to Quality and Price

Conventional wisdom on rural marketing believes that the villager craves, but can't afford the products his city cousin consumes. As a result, companies usually try to reduce the prices of their products either by creating smaller pack sizes, or by compromising on quality. This works sometimes, and with some products. Small pack sizes get acceptance in markets that can pay only a small price because of the nature of income receipts. A landless labourer may get a small sum of money every day, so he buys his provisions daily and does not have a big sum to spend. He will therefore buy something that has a small unit price. The introduction of the sachet pack, for instance, led to a boom in shampoo sales during the Eighties. Hindustan Lever (now known as Hindustan Unilever Limited) found that retailers in villages were cutting its large 100 gm soap into smaller pieces and selling these, so it introduced a small 75 gm soap (Joshi, 1991).

The rural consumer is a very careful buyer. He is very conscious about getting value for money. He does not like to pay extra for frills he cannot use (Rajan, 2005). However, it is not true that only cheap brands sell in rural markets. Usha found that the sale of its economy models was priced 20 per cent higher (Das Gupta and Menon, 1990).

The Buying Process

The rural consumer has a very high involvement in any product purchased, especially when he decides to buy high-end

NOTES

NOTES

Check Your Progress
Explain the Social and Behavioural influences on Rural Consumer?

products which cost a few hundreds or thousands of rupees. He has his daily routine, and there is no sense of urgency in his lifestyle. He understands symbols and colours better, and looks for endorsement by local leaders or icons (Rajan, 2005).

5.9 Brand Preference and Loyalty

A marketer does not perceive an opportunity in rural market when he or she thinks that the rural consumer buys only unbranded items. It is useful to have a good understanding of the purchase behaviour of the consumer in order to guide decisions in the rural markets.

In as many as 10 product categories, national brands account for more than 90 per cent of the sales. The attitude of the rural consumers favours quality products and brands, but brand pricing has to take into account both the income level and income flow of the consumers. Rural consumers, as seen earlier, are not homogenous. There are consumers who can afford high priced brands. A group of rural consumers can not only afford but are also willing to buy high priced brands.

Brand Loyalty

Multi-brand strategies and entry for new brands in rural markets are possible, even though it is perceived to be a highly brand loyal market. The rural consumer is willing to consider alternatives. The loyalty of rural consumers to a brand varies according to product categories. It has been seen that loyalty is low in toilet soaps, toothpaste, batteries and washing cakes but high in home insecticides, *chyavanprash*, shaving preparations and skin cream. Brand loyalty is possibly lower in product categories where there is choice and not much brand building.

5.10 Heterogeneity of Rural Consumers

It is well established that consumers in rural areas are different from consumers in urban areas. The rural market itself is diverse with vastly different behaviour across different geographical locations or across buyer groups. The rural consumers have their share of the rich and poor. Their purchases reflect their incomes, physical environment, cultural and social practices, perceptions and attitudes. The place-of-purchase of a product and products age vary according to consumers, products, and situations and add to the complexity in the behaviour of the rural consumer. The sophistication in approach to the rural markets is clearly a necessity and starts with the recognition of the non-existence of the average rural consumer.

5.11 Segmentation Opportunity

The heterogeneity among rural consumers is an opportunity for the marketers to identify possible ways of segmenting this market. Variations in behaviour and the benefits sought are important variables to segment the market. A simple and very relevant variable for segmenting the market is the economic well-being of households. The five categories identified by the NCAER survey (Natrajan, 2002) uses economic well-being as the basis for their categorisation. The five categories are :

1. ***The Affluent/very rich:*** Households owning personal car/ jeep and other products.
2. ***The Well-off:*** Households owning any/all of these - air conditioners, motor cycle, scooter, washing machine, refrigerator, colour television with other durable products but not car/jeep.

NOTES

NOTES

3. ***The Climbers:*** Households owning any/all of these - moped, VCR/VCP, mixer grinder, sewing machine, audio equipment (two-in-ones, etc.), black & white television, geyser with other durable products but not those mentioned under the first two categories.
4. ***The Aspirants:*** Households owning any/all of these - bicycle, electric fans, electric iron with other durables but not mentioned under the first three categories.
5. ***The Destitute:*** Households other than those classified under Categories 1 to 4 above (owning any/all/none of these - wristwatches, pressure cooker, mono cassette recorder, transistor/radio).

Creative Use of Products

The marketer will find it fruitful to keep track of the different ways in which the product is used by the rural consumers. This is because the product use could differ and may not be as envisaged by the marketer. Even for the experienced marketer surprises never cease. Market development is achieved by being alert to the new and creative uses for the product.

5.12 Summary

- The popular image of a rural consumer is of one who has limited educational background, is exposed to limited products and brands.
- To understand rural buying behaviour, a marketer must first understand (a) the factors that influence buying behaviour and (b) the variations in behaviour.
- A villager's needs are different from those of an urban consumer.

- Variations in economic development and in consumer willingness to accept innovations are evident in rural markets.
- The rural consumer is influenced by the environment and also by his or her wants and perceptions. The influence of children on choice is mostly for personal care products.
- The cultural and social practices have a major influence on the behaviour of the rural consumer.
- A marketer's response to the influence of cultural and social practices is in the areas of product and of promotion.
- Consumer's interpretation of product and promotion contribute to creating the position for the product.
- A marketer does not perceive an opportunity in rural market when he or she thinks that the rural consumer buys only unbranded items.
- The heterogeneity among rural consumers is an opportunity for the marketers to identify possible ways of segmenting this market.

NOTES

5.13 Key Terms

Brand Loyalty: Multi-brand strategies and entry for new brands in rural markets are possible, even though it is perceived to be a highly brand loyal market. The rural consumer is willing to consider alternatives. The loyalty of rural consumers to a brand varies according to product categories.

Buyer's Loyalty: Buyer's loyalty is limited and can be enhanced with active participation of retailers. Since competitors are doing exactly the same, one has to be on the constant look out for better and more rewarding promotional plans both customers and retailers.

Forward Vertical Integration: In which the vendor can start to manufacture the product it was selling, for example the cloth-maker

starts to make readymade garments, or the television picture tube maker starts making television sets. In such case there is loss of a customer.

NOTES

PR: Public Relations plays a great role in building company's brand image.

Promotion: Promotion tries to generate immediate consumer response with respect to company's overall marketing strategy. While advertising builds long term customer awareness and attitudes, promotional plans are meant to have a short-term influence on the customers.

5.14 Questions and Exercises

1. Explain the Lifestyle of Rural Consumer.
2. What are the geographic and demographic influences on behaviour variations?
3. Describe the influence of Larger Environment on Rural Consumers.
4. Discuss the occupation and consumption pattern of Rural India.
5. Explain the Social and Behavioural influences on Rural Consumer.
6. Describe the Brand preference and Loyalty of Rural Consumers.
7. Discuss the heterogeneity of Rural Consumers.
8. What do you mean by Brand Loyalty?
9. Explain the Buying Process.
10. Describe the perception and its influence on product design and message.

Check Your Progress

Fill in the blanks:

1. in the twenty-first century actually means marketing in an open market situation or in the global market economy.
2. based customer data, buying trends, segmentations and peripheral segments need careful attention.
3. Companies' have to use their core competencies, resources, talents and communications to the customers keeping the marketing opportunities in
4. wants the product he has used earlier, or as he wants if it is a research project.
5. Manager wants to buy the traditional product to avoid inventory problems.
6. One important link in the process is the role of influencers and veto-ers.

State whether the following statements are true or false:

1. Big volume buyers usually call the three to four short-listed vendors for final negotiations on price and terms of business.
2. Industrial sales or B-to-B sales can be long drawn out processes as the money value of orders is large, and the buyers want the best deal.
3. Industrial buying is mostly directly from the manufacturers but in case of raw materials and components, the sellers use the services of distribution channels.
4. In India, there are two types of tenders, running contracts and rate contracts.
5. Home buyers prefer to buy a large range of products from one source and hence number of sellers tie up for providing turn key solutions.

NOTES

Multiple Choice Questions:

NOTES

1. promotion is an offer of direct money saving to the customer without diluting product's brand equity.
(a) Product (b) Sales
(c) Government (d) Price
2. Special cost packs are offered as promotion to encourage trial.
(a) low (b) high
(c) average (d) big
3. Buyer's loyalty is limited and can be enhanced with active participation of
(a) distributors (b) dealers
(c) retailers (d) wholesalers
4. Sales promotion takes up to % of total marketing budget and hence it is a major factor.
(a) 89 (b) 87
(c) 69 (d) 70

Answers:

1. Marketing 2. Computer 3. Mind 4. User 5. Purchase
6. Decision 1. True 2. True 3. True 4. True 5. False
1. (b) 2. (a) 3. (c) 4. (d).

5.15 Further Reading and References

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International.
- Balkrishnan, Mandira Dutta (1978), "Rural Marketing: Myth and Reality", Economic and Political weekly, August 1878, M-75 to M-80.
- Balram Dogra, Rural Marketing, McGraw Hill Companies.

- Dey, N.B and Adhikari, KingShuk (1998) “Rural Marketing challenges an opportunities”, Yojana, 42(5), May 1998,, p.21-22, 41.
- Gaikwad, V.K (1972), “A Research for the Rural Consumer”, IN: New Opportunities in Changing Agriculture, Ahmedabad: CMA(IIMA), 1972, pp 159-172.
- Jha Mithileswar (1998), “Rural Marketing: Some Conceptual issues”, Economic and Political Weekly, Vol XXIII(No. 9), February 27, 1998, pp M-8 to M-16.
- Kannan Shanthi (2001), “Rural Market – A world of Opportunity”, Hindu, 11 October, 2011
- Kotler, P., & Armstrong, G. (2010). Principles of marketing. pearson education.
- McCracken, J., J, Pretty and G. Conway. (1988). An Introduction to Rapid Rural Appraisal for Rural Development. Iled, London, England.
- Pradeep Kashyap & Siddhartha Raut, The Rural Marketing, Biztantra.R.V. Bedi, N.V. Bedi, Rural Marketing, Himalaya Publishing.
- Rajagopal, Development of Agricultural Marketing in India Print well (Jaipur). Shepherd, A. (1999), “A guide to maize marketing for extension officers”. Extension Guide 1, Marketing & Rural Finance Service. FAO, Rome.
- T.P. Gopal Swamy, Rural Marketing, Wheeler Publishing (New Delhi) 1998. CMIE Report.

NOTES

NOTES

UNIT 6 : SEGMENTING, TARGETING AND POSITIONING

*Segmenting, Targeting
and Positioning*

NOTES

6.0 Unit Objectives

6.1 Introduction

6.2 Market Segmentation

6.3 Conditions for Effective Market Segmentation

6.4 Approaches for Segmenting the Rural Market

6.4.1 Based on Size of Village Population

6.4.2 Based on Location with Respects to Nearby Town

6.4.3 Based on Size of Farmland

6.5 Rural Market Segmentation Tools

6.5.1 Thomson Rural Market Index

6.5.2 Mica Rural Market Rating

6.5.3 Linquest

6.5.4 Indian Market Demographic

6.5.5 Business Intelligence Unit

6.5.6 Lincompass

6.5.7 ARCVIEW

6.6 Summary

6.7 Key Terms

6.8 Questions and Exercises

6.9 Further Reading and References

6.0 Unit Objectives

After reading this unit, you should be able to:

- Define Targeting and Segmentation.
- Discuss the Market segmentation.
- Describe the Rural Marketing Segmentation Tools.
- Explain Approaches of Segmenting the Rural Market.

NOTES

6.1 Introduction

Market segmentation involves grouping your various customers into segments that have common needs or will respond similarly to a marketing action. Each segment will respond to a different marketing mix strategy, with each offering alternate growth and profit opportunities.

6.2 Market Segmentation

Some different ways you can segment your market include the following :

- Demographics which focuses on the characteristics of the customer. For example age, gender, income bracket, education, job and cultural background.
- Psychographics which refers to the customer group's lifestyle. For example, their social class, lifestyle, personality, opinions, and attitudes.
- Behaviour which is based on customer behaviour. For example, online shoppers, shopping centre customers, brand preference and prior purchases.
- Geographical location such as continent, country, state, province, city or rural that the customer group resides.

Targeting

After segmenting the market based on the different groups and classes, you will need to choose your targets. No one strategy will suit all consumer groups, so being able to develop specific strategies for your target markets is very important.

There are three general strategies for selecting your target markets:

- **Undifferentiated Targeting:** This approach views the market as one group with no individual segments, therefore using a single marketing strategy. This strategy may be useful for a business or product with little competition where you may not need to tailor strategies for different preferences.
- **Concentrated Targeting:** This approach focuses on selecting a particular market niche on which marketing efforts are targeted. Your firm is focusing on a single segment so you can concentrate on understanding the needs and wants of that particular market intimately. Small firms often benefit from this strategy as focusing on one segment enables them to compete effectively against larger firms.
- **Multi-segment Targeting:** This approach is used if you need to focus on two or more well defined market segments and want to develop different strategies for them. Multi segment targeting offers many benefits but can be costly as it involves greater input from management, increased market research and increased promotional strategies. Prior to selecting a particular targeting strategy, you should perform a cost benefit analysis between all available strategies and determine which will suit your situation best.

Positioning

Positioning is developing a product and brand image in the minds of consumers. It can also include improving a customer's perception about the experience they will have if they choose to purchase your product or service. The business can positively influence the perceptions of its chosen customer base through strategic promotional activities and by carefully defining your business' marketing mix. Effective positioning involves a good understanding of competing products and the benefits that are sought by your target market. It also requires you to identify a differential

NOTES

Check Your Progress

Define Market Segmentation?

NOTES

advantage with which it will deliver the required benefits to the market effectively against the competition. Business should aim to define themselves in the eyes of their customers in regards to their competition.

Self Assessment

Fill in the blanks:

1. involves grouping your various customers into segments that have common needs or will respond similarly to a marketing action.
2. should aim to define themselves in the eyes of their customers.
3. is developing a product and brand image in the minds of consumers.
4. Effective positioning involves a understanding of competing products.
5. targeting offers many benefits but can be costly as it involves greater input from management, increased market research and increased promotional strategies.

6.3 Conditions for Effective Market Segmentation

Effective market segmentation takes effort. It is not something that comes easily for any business. It requires a great deal of skilled research and effective implementation of segmentation strategies. Mindful monitoring of marketing strategy performance and adjustment to the segmentation system is also necessary to maintain the effectiveness of the strategies that have been employed.

This is the reason that marketing is a highly valued profession and one in which most businesses hire a skilled professional to manage

and implement any strategies that will be employed. For small business owners and operators, the process of implementing marketing strategies is often a task that falls squarely on their shoulders. There simply aren't the resources to hire a big marketing team to handle these functions. As such, you may be looking for ways to increase your own market performance and may see market segmentation as a means for achieving your goals.

Market segmentation is a process through which businesses identify if different market groups seem to be good ventures. It looks at whether these groups are:

- Easily identifiable
- Measurable
- Accessible
- Responsive
- Can be sustained

If you have any product that has more than one customer, then you have the potential to implement successful market segmentation strategies. Doing so means that you need to have a means of tracking your customers, identifying information about them - like their interests, how often they buy, whether they are loyal to your product, etc. You also need to be able to predict that they will remain customers and will be interested in the marketing information or new products that you try to peddle to them. One of the best ways to do this is through customer surveys and consistently strong customer service review techniques, during which you can gauge the degree of interest and loyalty your customers have for your new products and your business in general.

The requirements for effective market segmentation are as follows:

1. ***Measurable:*** The size, needs, purchasing power, and characteristics of the customers in the segment should be

NOTES

NOTES

measurable. Quantification should be possible.

2. **Divisible:** The segments should be differentiable. There must be clear-cut basis for dividing customers into meaningful homogeneous groups. They should respond differently to different marketing mixes. There should be differences in buyer's needs, characteristics and behaviour for dividing in groups.
3. **Accessible:** The segment should be reachable and serviceable. It should be accessible through existing marketing institutions, such as distribution channels, advertising media and sales force. There should be middlemen to distribute the products.
4. **Substantial:** The segment should be substantial. It should be large enough in terms of customers and profit potential. IT should justify the costs of developing a separate marketing mix.
5. **Actionable:** It should be actionable for marketing purposes. Organizations should be able to design and implement the marketing mix to serve the chosen segment.

6.4 Approaches for Segmenting the Rural Market

6.4.1 Based on Size of Village Population

The size of population residing in a village is a significant factor which determines the overall potential demand for a product or service in that village.

6.4.2 Based on Location with Regards to Nearby Town

- Villages Near Urban Centers.

- Villages in Developing Districts
- Immobile and self sufficient Asiatic Villages

6.4.3 Based on Size of Farmland

- Marginal Farmer : holding up to 1.0 hectare
- Small Farmer : holding 1.0-2.0 hectare
- Semi-medium Farmer : holding 2.0-4.0 hectare
- Medium Farmer : holding 4.0-10.0 hectare
- Large Farmer : holding 10.0 hectares and above

Self Assessment

State whether the following statements are true or false:

6. Effective market segmentation takes effort.
7. The MICA Rural Market Ratings (MRMR) has been developed by the Mudra Institute of Communications.
8. Effective positioning involves a good understanding of competing products and the benefits that are sought by your target market.
9. There must be clear-cut basis for dividing sellers into meaningful homogeneous groups.
10. Market Targeting is a process through which businesses identify if different market groups seem to be good ventures.
11. Business should aim to define themselves in the eyes of their customers in regards to their product.

6.5 Rural Market Segmentation Tools

6.5.1 Thomson Rural Market Index

This index takes the district as basic unit. This study is projected as a relative indicator of the overall economic or market potential. Three hundred and Eighty Three districts are covered under

NOTES

NOTES

this study. The data are presented against 23 indicators. The value of agricultural output, available for most of the districts and considered to be an overall indicator of the rural Economy has been adopted as a parameter for compiling the index. The presentation is done systematically within the zones and for the states in that zone. For this purpose the markets have been classified under five different categories.

6.5.2 Mica Rural Market Rating

The MICA Rural Market Ratings (MRMR) has been developed by the Mudra Institute of Communications, Ahmedabad (MICA) in association with ML Infomap Pvt. Ltd., New Delhi. MICA is the premier institute for training communications professionals and ML Infomap is a specialist IT consulting company, with several digital map products to its credit. The result of this joint effort is an exciting and outstandingly useful marketing tool. For the senior marketing executive, or media planner, or even an NGO involved in rural development work, this could be the perfect tabletop multimedia guide to rural India. And all this has been delivered on one CD and presented in colorful maps using digital mapping technology from MapInfo Corporation. MICA, in its continual effort to serve the advertising and marketing community, developed a rural market index, to indicate the rural market potential of all the districts of India. This exercise was based on stringent research and analysis of forty-two variables. An interesting aspect of the project is that instead of ending with just presenting this research, great value has been added through several interesting features. For one, the data is available only on electronic media and so can be observed and presented in several different ways just by the click of the mouse. For another, the results of this research are presented on maps. For this, ML Infomap's proprietary product, The Standard Digital map

of India TM has been used. Shaded district maps indicate the level of market potential. Since the results are seen on a map, clear patterns of market potential can be 'seen'. Then, clicking with the information tool on a district, one can immediately see important facts relating to it. These relate to bank advances, demographics, infrastructure, and more.

6.5.3 Linqest

Initiative Media developed Linqest, a software package that provides marketers with data on rural India. The data can be sorted based on five parameters:

1. Demographic
2. Agricultural
3. Income
4. Literacy
5. Civic Amenities

Depending on the product being launched, marketers will be interested in certain parameters such as literacy levels, male-female ratios, bank deposits, income levels, accessibility, dispensaries, schools and distance from the nearest town.

6.5.4 Indian Market Demographic

Demographics refers to physical characteristics of people such as sex, age, ethnicity, income, family size, occupation, education, marital status, social class, and stage of the family life cycle.

6.5.5 Business Intelligence Unit

The term Business Intelligence (BI) represents the tools and systems that play a key role in the strategic planning process of the

NOTES

NOTES

Check Your Progress
Explain the Rural
Market Segmentation
Tools?

corporation. These systems allow a company to gather, store, access and analyze corporate data to aid in decision-making. Generally these systems will illustrate business intelligence in the areas of customer profiling, customer support, market research, market segmentation, product profitability, statistical analysis, and inventory and distribution analysis to name a few.

6.5.6 Lincompass

Lintas has developed a specialised Rural marketing division named linterland and it also has developed a software tool that does the mapping of the rural market named lincompass. Software has calculated a fixed market potential for the district . The geographical information based software has data on 6,26,000 villages all over the country barring Jammu and Kashmir. Each of these districts can be analysed with 256 parameters of which 32 are considered key to avoid overlaps.

6.5.7 ARCVIEW

This knowledge based intelligence system depicts the 5,86,962 villages as digitized points on the maps depicting the market potential of an area as a cluster. It generated maps of different kinds: agricultural maps, Socio-cultural maps, national and state highway maps and river maps. The tool can be used for optimal decisions for logistics and distribution applications, territory planning and dealer development. It identifies potential markets from state to district to village or town. It also analyses accessibility, coverage and penetration enabling cost effective transportation planning.

Self Assessment

Multiple Choice Questions:

- 12. The term represents the tools and systems

that play a key role in the strategic planning process of the corporation.

- (a) potential Market (b) business intelligence
- (c) dealer development (d) penetration

13. has developed a specialised Rural marketing division named linterland.

- (a) Logistics (b) Territory
- (c) Lintas (d) Transportation

14. The result of this joint effort is an exciting and outstandingly useful tool.

- (a) rural (b) segmentation
- (c) geographical (d) marketing

15. The geographical information based software has data on villages all over the country barring Jammu and Kashmir.

- (a) 5,34,000 (b) 6,26,000
- (c) 6,45,000 (d) 6,34,000

Case Study

Fertilizer Sales Toronto

The CEO of Canada’s biggest fertilizer company is eyeing good growth for years to come as population and wealth increases in India and China create an even greater demand for agricultural products. “It is an exciting time for Potash Corp and our industry,” William Doyle, CEO of Potash Corp. of Saskatchewan (TSX:POT) said during the BMO Global Fertilizer Conference in Toronto. “Our growth potential in potash comes from the expanding GDP (gross domestic product) in offshore markets. With accelerating income growth, the rising populations of these countries want more and better food,” he said. “Meanwhile, per capita land available for agriculture is decreasing.” China, whose consuming middle class is around 200

NOTES

NOTES

million people and which is under pressure to increase imports to reduce trade deficiencies, is leading the increase in global agricultural trade, he said. India is a close second with a consuming middle class of 250 million, which could triple by 2010. “The spike in wealth is pulling potash consumption with it,” Doyle said. And while consumption has been steady in mature North American markets for the past two decades, South America is another growth area. Brazil, for instance, needs potash because it is producing soybeans for China and India, he said.”In addition to providing growth, these markets produce a diverse customer base and protect against a short-term shock in any one region,” Doyle said. Mike Wilson CEO of Agrium Inc. (TSX:AGU), the country’s second-biggest fertilizer producer, said his company is continuing to focus on South America after strengthening its position in Chile and Argentina through retail acquisitions. Agrium also acquired U.S. rival Royster-Clark Ltd. (TSX:ROY.UN) after a sweetened \$616- million-Cdn offer in February. The deal, which turned the Calgary-based company into the largest agricultural supplies retailer in the United States, is expected to produce \$30 million US in cost savings and margin improvements by next year. “It’s a very good strategic fit; it gives us size and critical mass that no one else has, and our synergies and margin improvements are significant,” he said. Agrium’s distribution in North America, he added, is now approaching four million tonnes. “We are a good North American nitrogen company,” he said, adding that a lot of its growth has also stemmed from sales of nitrogen outside North America. “With our ESN (ESN Smart Nitrogen, a patented coated fertilizer) business, with our potash expansion and with our retail expansions and with speciality expansions, the business is going to continue to grow.” Agrium is one of North America’s biggest fertilizer companies, with operations in Canada, the United States and South America. Last month, it posted record annual profits of \$283 million US and nearly \$3.3 billion in sales,

crediting revenue and profit growth in its existing retail, seed, chemicals and fertilizer businesses. Saskatoon-based Potash Corp. has 5,000 employees in five countries around the world and accounts for one-quarter of the global production capacity for potash. It produces three nutrients, potash, nitrogen and phosphate products, but its biggest focus and profits are on potash.

Question

1. What lessons can the Indian fertilizer industry learn to help Indian agriculture grow rapidly for Indian needs and for exports as well?

6.6 Summary

- Market segmentation involves grouping your various customers into segments that have common needs or will respond similarly to a marketing action.
- Positioning is developing a product and brand image in the minds of consumers.
- Effective positioning involves a good understanding of competing products and the benefits that are sought by your target market.
- Effective market segmentation takes effort.
- Market segmentation is a process through which businesses identify if different market groups seem to be good ventures.
- An interesting aspect of the project is that instead of ending with just presenting this research, great value has been added through several interesting features.

6.7 Key Terms

Accessible: The segment should be reachable and serviceable. It should be accessible through existing marketing institutions, such

NOTES

NOTES

as distribution channels, advertising media and sales force. There should be middlemen to distribute the products.

Concentrated Targeting: This approach focuses on selecting a particular market niche on which marketing efforts are targeted. Your firm is focusing on a single segment so you can concentrate on understanding the needs and wants of that particular market intimately.

Demographics: It focuses on the characteristics of the customer. For example age, gender, income bracket, education, job and cultural background.

Psychographics: It refers to the customer group's lifestyle. For example, their social class, lifestyle, personality, opinions, and attitudes.

Substantial: The segment should be substantial. It should be large enough in terms of customers and profit potential. IT should justify the costs of developing a separate marketing mix.

Undifferentiated Targeting: This approach views the market as one group with no individual segments, therefore using a single marketing strategy. This strategy may be useful for a business or product with little competition where you may not need to tailor strategies for different preferences.

6.8 Questions and Exercises

1. Define Market Segmentation.
2. What are the conditions for Effective Market Segmentation?
3. What do you know about Thomson Rural Market Index?
4. Describe the MICA Rural Marketing Rating.
5. Explain the Rural Market Segmentation Tools.
6. Describe the approaches for segmentation of Rural Marketing.
7. Explain the conditions for effective market segmentation.

8. What do you mean by Business Intelligence Unit?
9. Explain the Indian Market Demographics.
10. Define Undifferentiated Targeting.

Answers : Self Assessment

1. Market Segmentation
2. Business
3. Positioning
4. Good
5. Multi Segment
6. True
7. True
8. True
9. False
10. False
11. False
12. (b)
13. (c)
14. (d)
15. (b)

6.9 Further Reading and References

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International.
- Balkrishnan, Mandira Dutta (1968), “Rural Marketing: Myth and Reality”, Economic and Political weekly, August 1868, M-65 to M-80.
- Balram Dogra, Rural Marketing, McGraw Hill Companies.
- Dey, N.B and Adhikari, KingShuk (1998) “Rural Marketing challenges an opportunities”, Yojana, 42(5), May 1998,, p.21-22, 41.

NOTES

NOTES

- Gaikwad, V.K (1962), “A Research for the Rural Consumer”, IN: New Opportunities in Changing Agriculture, Ahmedabad: CMA(IIMA), 1962, pp 159-162.
- Jha Mithileswar (1998), “Rural Marketing: Some Conceptual issues”, Economic and Political Weekly, Vol XXIII(No. 9), February 26, 1998, pp M-8 to M-16.
- Kannan Shanthi (2001), “Rural Market – A world of Opportunity”, Hindu, 11 October, 2011
- Kotler, P., & Armstrong, G. (2010). Principles of marketing. pearson education.
- McCracken, J., J, Pretty and G. Conway. (1988). An Introduction to Rapid Rural Appraisal for Rural Development. Iied, London, England.
- Pradeep Kashyap & Siddhartha Raut, The Rural Marketing, Biztantra.R. V. Bedi, N.V. Bedi, Rural Marketing, Himalaya Publishing.
- Rajagopal, Development of Agricultural Marketing in India Print well (Jaipur). Shepherd, A. (1999), “A guide to maize marketing for extension officers”. Extension Guide 1, Marketing & Rural Finance Service. FAO, Rome.
- T.P. Gopal Swamy, Rural Marketing, Wheeler Publishing (New Delhi) 1998. CMIE Report.

UNIT 7 : RURAL PRODUCT STRATEGY

NOTES

7.0 Unit Objectives

7.1 Introduction

7.2 The Product Concept

7.3 Levels of a Product

7.4 Product Life Cycle

7.5 Rural Product Classification

7.6 Product Decisions and Strategies

7.7 Individual Product Decisions

7.8 Product Line and Mix Decisions

7.8.1 Product Line

7.8.2 Product Mix Decisions

7.9 Product Life Cycle Strategies in Rural Markets

7.10 Summary

7.11 Key Terms

7.12 Questions and Exercises

7.13 Further Reading and References

7.0 Unit Objectives

After reading this unit, you should be able to:

- Understand the Classification of Products in Rural Markets.
- Build and Manage the brands in Rural Markets.
- Understand the Role and Elements of Packaging Products for Rural Markets.
- Recognize the Role and Importance of After Sales Service.
- Discuss the Relevant Product Decisions and Product Strategies.

NOTES

7.1 Introduction

The product, from a marketing point of view, is a *batch of benefits* that a company offers to its customers in order to satisfy their needs and requirements (the product is not just the metallic or non-metallic material assembly). The product is approached from the customers' satisfaction point of view, considering that they buy satisfaction, not just material objects.

7.2 The Product Concept

The product concept proposes that consumers will prefer products that have better quality, performance and features as opposed to a normal product. The concept is truly applicable in some niches such as electronics and mobile handsets. Two companies which stand apart from the crowd when we talk about the product concept are Apple and Google. Both of these companies have strived hard on their products and deliver us feature rich, innovative and diverse application products and people just love these brands. One problem which has been associated with the product concept is that it might also lead to marketing myopia. Thus companies need to take innovations and features seriously and provide only those which the customer needs. The customer needs should be given priority. In the past several of Microsoft's product have been brought under the hammer with people feeling more and more disgruntled with the operating systems because of lack of innovation and new features. Each Microsoft operating system appears almost similar with just few tweaks. On the other hand, innovating too soon becomes a problem. Several innovative products are marked as experimental in the market instead of being adopted as a result of which these products have less shelf life and might have to be taken off the market. Thus companies following the product concept need to concentrate

on their technology such that they provide with excellent feature rich and innovative products for optimum customer satisfaction. The product is the offer of a company, addressed to the market in order to captivate their interest so that the customers purchase it, use it or consume it for a specific need or desire. Therefore, the products can be *material goods, services, persons, organizations, places, ideas*. In order for the product to be better understood, it needs to be analyzed on more levels, beginning with its essence to all the other features that can be added to the product so that it generates a maximum satisfaction.

A 3 level product analysis reveals the following aspects:

- The product **essence** is the benefit that the product provides.
- The **actual product** consists in the tangible and intangible features of the product, that can also meet customers' needs.
- The **completed product** has a series of extra intangible traits, that influence the purchasing decision and contribute to customer satisfaction (extra services, brand image, strong customer support).

Considering the various classification criteria, a product typology can be made:

1. Classification regarding the destination

- *Individual consumption*
- *General use products*
- *Basic products* (bread, basic foods, toothpaste, soap, clothes)
- *Extra products* – unplanned purchases, caused by impulse and a momentary encounter with a limited offer (sweets near the cash register, ice cream and fresheners in crowded places)
- *Special products (luxury)* – have unique features and the buyers are ready to make effort in order to buy

NOTES

Check Your Progress

Write note on Product line and product mix decision?

NOTES

them so that they can make a display of a certain social status

- *Industry* consumption
- Raw materials
- Subassembly
- Investment goods
- Commercial services

2. Classification regarding the durability

- *Short usage goods* – are consumed at the first usage (foods, drinks, fuel)
- *Long usage goods* – are used for longer periods of time (buildings, furniture, clothes)
- *Services* – activities conducted to satisfy needs that do not require possession over the product (are intangible).

7.3 Levels of a Product

In the 1960's, the economist Philip Kotler changed the perception of marketing. He described what marketing is rather than what marketers do, thereby changing marketing from a departmental specialisation into a corporate wide doctrine. For Kotler, marketing was a 'social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others'. For him, a product is more than physical. A product is anything that can be offered to a market for attention, acquisition, or use, or something that can satisfy a need or want. Therefore, a product can be a physical good, a service, a retail store, a person, an organisation, a place or even an idea. Products are the means to an end wherein the end is the satisfaction of customer needs or wants.

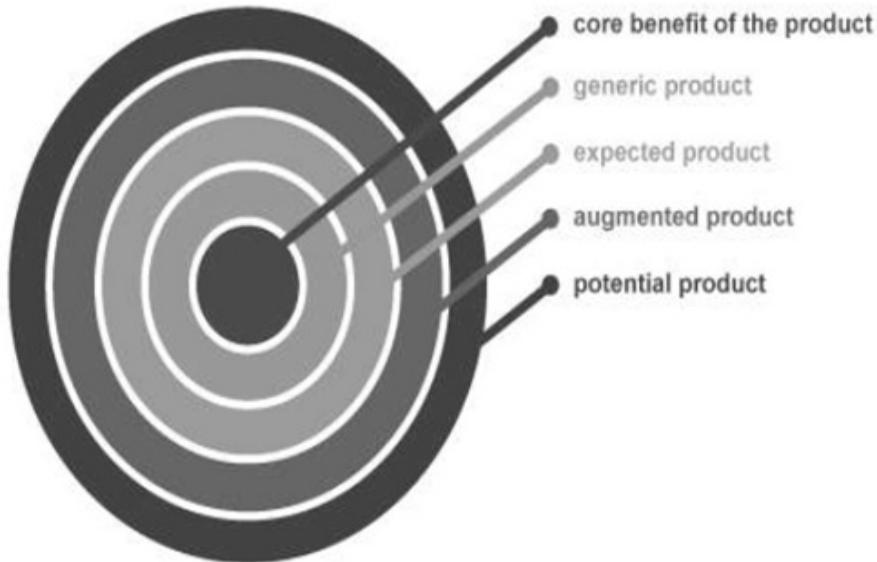


Figure 7.1: Five Product Levels

Kotler distinguished three components:

- **need:** a lack of a basic requirement;
- **want:** a specific requirement for products or services to match a need;
- **demand:** a set of wants plus the desire and ability to pay for the exchange.

Customers will choose a product based on their perceived value of it. Satisfaction is the degree to which the actual use of a product matches the perceived value at the time of the purchase. A customer is satisfied only if the actual value is the same or exceeds the perceived value. Kotler defined five levels to a product :

1. **Core Benefit:** The fundamental need or want that consumers satisfy by consuming the product or service.
2. **Generic Product:** A version of the product containing only those attributes or characteristics absolutely necessary for it to function.

NOTES

NOTES

3. **Expected Product:** The set of attributes or characteristics that buyers normally expect and agree to when they purchase a product.
4. **Augmented Product:** Inclusion of additional features, benefits, attributes or related services that serve to differentiate the product from its competitors.
5. **Potential Product:** All the augmentations and transformations a product might undergo in the future. Kotler noted that much competition takes place at the Augmented Product level rather than at the Core Benefit level or, as Levitt put it: 'New competition is not between what companies produce in their factories, but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing, and other things that people value.' Kotler's model provides a tool to assess how the organisation and their customers view their relationship and which aspects create value.

7.4 Product Life Cycle

- **The Product Life Cycle (PLC) :** is based upon the biological life cycle. For example, a seed is planted (introduction); it begins to sprout (growth); it shoots out leaves and puts down roots as it becomes an adult (maturity); after a long period as an adult the plant begins to shrink and die out (decline). In theory it's the same for a product. After a period of development it is introduced or launched into the market; it gains more and more customers as it grows; eventually the market stabilizes and the product becomes mature; then after a period of time the product is overtaken by development and the introduction of superior

competitors, it goes into decline and is eventually withdrawn. However, most products fail in the introduction phase. Others have very cyclical maturity phases where declines see the product promoted to regain customers.

- **Introduction :** The need for immediate profit is not a pressure. The product is promoted to create awareness. If the product has no or few competitors, a skimming price strategy is employed. Limited numbers of product are available in few channels of distribution.
- **Growth :** Competitors are attracted into the market with very similar offerings. Products become more profitable and companies form alliances, joint ventures and take each other over. Advertising spend is high and focuses upon building brand. Market share tends to stabilise.
- **Maturity :** Those products that survive the earlier stages tend to spend longest in this phase. Sales grow at a decreasing rate and then stabilise. Producers attempt to differentiate products and brands are key to this. Price wars and intense competition occur. At this point the market reaches saturation.

Producers begin to leave the market due to poor margins. Promotion becomes more wide spread and use a greater variety of media.

- **Decline :** At this point there is a downturn in the market. For example more innovative products are introduced or consumer tastes have changed. There is intense price-cutting and many more products are withdrawn from the market. Profits can be improved by reducing marketing spend and cost cutting.

7.5 Rural Product Classification

Rural Products can be classified into four broad categories: Fast moving consumer Goods, Consumer Durables, Services and Agricultural Goods.

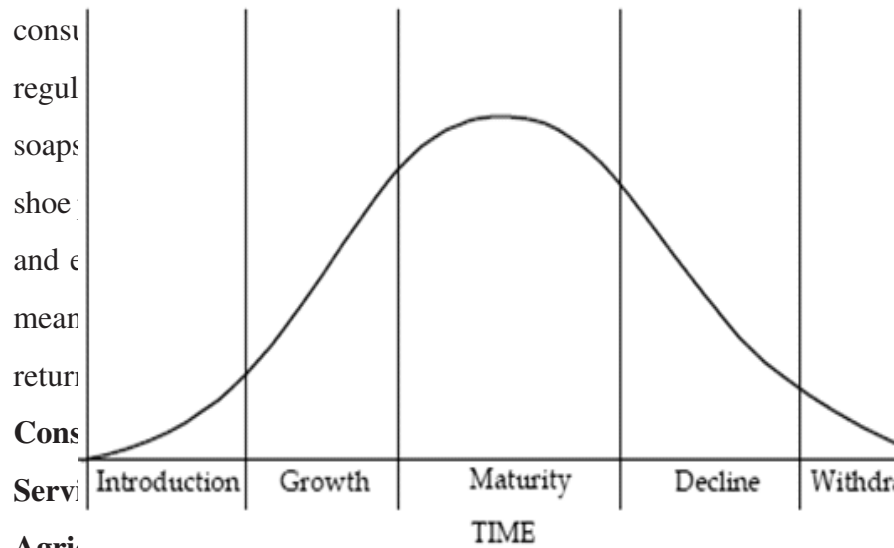
NOTES

NOTES

SALES

Figure 7.2: Product Life Cycle

- **Fast-moving Consumer Goods :** Fast Moving Consumer Goods (FMCG) goods are popularly named as consumer packaged goods. Items in this category include all



- Const
- Regul
- soaps
- shoe
- and €
- mean
- retur
- Cons
- Servi
- Agri

7.6 Product Decisions and Strategies

Product related decisions form one of the 4Ps of marketing mix. These decisions include introduction of new products, Improvement of existing products, planned elimination of obsolete

products and, packaging and branding. In this unit, we will discuss the framework within which these decisions are taken. Starting with identifying various types of products, we will introduce new terms like product line and mix. Most product decisions are taken in the context of the overall strategy of an organisation. This strategy may also include important areas of diversification. We will discuss Some of the important alternatives for diversification.

Types of Products

Let us now analyse the different types of products we come across. Generally products are classified into two types, namely.

1. Consumer Products and
2. Industrial Products.

- ***Consumer Products or Goods:*** Consumer goods are those which are used by ultimate consumers or households and in such form that they can be used without further commercial processing. Consumer goods can be divided into:

- ✓ ***Convenience Goods:*** These are goods which consumers generally purchase frequently without making an effort or as a habit. The purchase is almost spontaneous and the person has already a predetermined brand in mind. These convenience goods include soaps, newspapers, toothpastes, toiletries, cigarettes, etc. Often convenience goods are bought impulsively or spontaneously. For example, when a person goes shopping around and see a product which attracts his eyes, he buys it on impulse. Such goods are not purchased on regular basis.

- ✓ ***Shopping Goods:*** These are goods which are purchased after going around shops and comparing the different alternatives offered by different manufacturers and retailers. In this case, emphasis on

NOTES

NOTES

quality, price, fashion, style, etc. are of great importance. A common example, in the Indian context, would be the purchase of sarees by ladies. Generally, ladies go looking around from shop to shop before they make their final selection. Hence, the expression 'shopping' goods. These also include durables such as furniture and refrigerators. That is why a large variety of goods offered at a retail outlet increases sales of this type of goods. A manufacturer should also attempt to have his product properly displayed and offered at most retail outlets.

- ✓ **Durable Goods:** These are goods which are 'durable' or which last for some time. Examples of such goods would be electric irons, refrigerators, television sets, etc. This type of product requires more selling effort from the salesman. The question of after sales service and repairs is also of importance as 'selling points' or 'benefits' which the customer would like to have. Therefore, in case of refrigerators, the number of years of guarantee, particularly for the compressor, is an important consideration when a consumer makes his final selection.
- ✓ **Non-durable Goods:** These are goods which get depleted on consumption. For example a bottle of soft drink is consumed at once on one occasion within a matter of minutes. Soap obviously takes a little longer. However, in both these cases, the goods are consumed very fast. The advantage of these goods is that they are purchased very often and therefore there are many repeat purchases once the customer is satisfied with one product. Therefore, one must ensure quality and appropriateness of price. These

are the products that have to be advertised heavily, with a view to inducing people to try them out, and thus, build up brand preference and brand loyalty.

- **Services:** Services are specially mentioned here (although they do not constitute products) because it is generally thought that marketing is related to products alone. It should be remembered that marketing ideas and practices are equally applicable to services with slight adaptations in certain decisional areas. Services in content are different from products. For example, courts offer a service. So are hospitals, the fire department, the police and the post office. These are not products in the normal sense and yet it is very important for each of these institutions to have an appropriate image. The police are often criticised; the fire departments generally praised; the post office criticised for delays; the hospitals perhaps criticised for negligence and exorbitant rates and so on. It is obvious that controlling the quality of service is important for building its image.
- **Industrial Products :** These are products which are sold primarily for use in manufacturing other goods or for rendering some service. These include items like machinery, components and raw materials which form the bulk of industrial goods. Raw materials are sold in a different way from normal consumer products like chocolates, which require no personal selling. Raw materials on the other hand require a certain amount of technical knowhow on the part of the seller. The same would apply to component parts also. Machinery is also sold generally through the sales force, particularly if it is of the heavy type. It is obvious that the latter cannot be stocked in retail outlets. The type of product

NOTES

NOTES

determines the type of marketing mix which has to be adopted. Industrial goods also include supplies and services. Supplies may be like lubricant and oil or typing paper in connection with the office. Supplies are similar to convenience goods. They are purchased with very little effort and repurchased once the consumer is satisfied. They are also marketed through retail outlets. Industrial services include maintenance and repairs. For example, persons having typewriters naturally want them to be looked after on a regular basis generally by the same (regular) maintenance person who is normally an outsider. Similarly, after purchasing a computer, service is necessary. These services are often provided by small producers or by the manufacturer of the original equipment itself.

7.7 Individual Product Decisions

We will focus on the important decisions in the development and marketing of individual products and services. These decisions are about product attributes, branding, packaging, labeling, and product support services. Companies have to develop strategies for the items of their product lines. Marketers make individual product decisions for each product including: product attributes decisions, brand, packaging, labeling, and product-support services decisions. Product attributes deliver benefits through tangible aspects of the product including features, and design as well as through intangible features such as quality and experiential aspects. A brand is a way to identify and differentiate goods and services through use of a name or distinctive design element, resulting in long-term value known as brand equity. The product package and labeling are also important elements in the product decision mix, as they both carry brand equity through appearance and affect product performance with

functionality. The level of *product-support services* provided can also have a major effect on the appeal of the product to a potential buyer.

Individual Product Decisions

- ***Product Attributes:*** Developing a product or service involves defining the benefits that it will offer. These benefits are communicated to and delivered by product attributes such as quality, features, style and design.

1. ***Product Quality:*** Quality is one of the marketer's major positioning tools. Product quality has two dimensions – level and consistency. In developing a product, the marketer must first choose a *quality level* that will support the product's position in the target market. Here, product quality means *performance quality*—the ability of a product to perform its functions beyond quality level, high quality also can mean high levels of quality *consistency*. Here, product quality means *conformance quality*—freedom from defects and *consistency* in delivering a targeted level of performance. All companies should strive for high levels of conformance quality.

2. ***Product Features:*** A product can be offered with varying features. A stripped-down model, one without any extras, is the starting point. The company can create higher-level models by adding more features. Features are a competitive tool for differentiating the company's product from competitors' products. Being the first producer to introduce a needed and valued new feature is one of the most effective ways to compete.

3. ***Product Style and Design:*** Another way to add customer value is through distinctive *product style*

NOTES

Check Your Progress

What are the different level of a product?

NOTES

and design. Some companies have reputations for outstanding style and design. Design is a larger concept than style. *Style* simply describes the appearance of a product. Styles can be eye catching or yawn producing. A sensational style may grab attention and produce pleasing aesthetics, but it does not necessarily make the product *perform* better. Unlike style, *design* is more than skin deep-it goes to the very heart of a product. Good design contributes to a product's usefulness as well as to its looks. Good style and design can attract attention, improve product performance, cut production costs, and give the product a strong competitive advantage in the target market.

Self Assessment : State whether the following statements are true or false:

1. Fast Moving Consumer Goods (FMCG) goods are popularly named as consumer Finished goods.
2. The Indian FMCG sector with a market size of US\$14.8 billion is the fourth largest sector in the economy.
3. The consumer durable market is set to grow by up to 45 per cent in rural and semi-urban India.
4. Raw materials are sold in a different way from normal consumer products like chocolates, which require no personal selling.
5. Quality is one of the marketer's major degrading tools.

7.8 Product Line and Mix Decisions

7.8.1 Product Line

- **Product Line Strategies:** We have looked at product strategy

decisions such as branding, packaging, labeling, and support services for individual products and services. But product strategy also calls for building a product line. A product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges. For example, Nike produces several lines of athletic shoes and Motorola produces several lines of telecommunications products. In developing product line strategies, marketers face a number of tough decisions. The major product line decision involves product line length -the number of items in the product line. The line is too short if the manager can increase profits by adding items; the line is too long if the manager can increase profits by dropping items. Company objectives and resources influence product line length. Product lines tend to lengthen over time. The sales force and distributors may pressure the product manager for a more complete line to satisfy their customers. Or, the manager may want to add items to the product line to create growth in sales and profits. However, as the manager adds items, several costs rise: design and engineering costs, inventory costs, manufacturing changeover costs, transportation costs, and promotional costs to introduce new items. Eventually top management calls a halt to the mushrooming product line. Unnecessary or unprofitable items will be pruned from the line in a major effort to increase overall profitability. This pattern of uncontrolled product line growth followed by heavy pruning is typical and may repeat itself many times. The company must manage its product lines carefully. It can systematically increase the length of its product line in two ways: by stretching its line and by filling its line. Product line stretching stretches its line downward,

NOTES

NOTES

upward, or both ways. Many companies initially locate at the upper end of the market and later stretch their lines downward. A company may stretch downward to plug a market hole that otherwise would attract a new competitor or to respond to a competitor's attack on the upper end. Or it may add low-end products because it finds faster growth taking place in the low-end segments.

- ***New-product Development*** : Given the rapid changes in consumer tastes, technology, and competition, companies must develop a steady stream of new products and services. A firm can obtain new products in two ways. One is through acquisition—by buying a whole company, a patent, or a license to produce someone else's product. The other is through new-product development in the company's own research and development department. By new products we mean original products, product improvements, product modifications, and new brands that the firm develops through its own research and development efforts. In this chapter, we concentrate on new-product development. New products continue to fail at a disturbing rate. One source estimates that new consumer packaged goods (consisting mostly of line extensions) fail at a rate of 80 percent. Moreover, failure rates for new industrial products may be as high as 30 percent. Why do so many new products fail? There are several reasons. Although an idea may be good, the market size may have been overestimated. Perhaps the actual product was not designed as well as it should have been. Or maybe it was incorrectly positioned in the market, priced too high, or advertised poorly. A high-level executive might push a favorite idea despite poor marketing research findings. Sometimes the costs of product development are higher than

expected, and sometimes competitors fight back harder than expected. Because so many new products fail, companies are anxious to learn how to improve their odds of new-product success. One way is to identify successful new products and find out what they have in common. Another is to study new-product failures to see what lessons can be learned. Various studies suggest that new-product success depends on developing a unique superior product, one with higher quality, new features, and higher value in use. Another key success factor is a well defined product concept prior to development, in which the company carefully defines and assesses the target market, the product requirements, and the benefits before proceeding. Other success factors have also been suggested—senior management commitment, relentless innovation, and a smoothly functioning new-product development process. In all, to create successful new products, a company must understand its consumers, markets, and competitors and develop products that deliver superior value to customers. So companies face a problem—they must develop new products, but the odds weigh heavily against success. The solution lies in strong new-product planning and in setting up a systematic new-product development process for finding and growing new products. Eight major steps in this process are:

- (a) *Idea generation*
- (b) *Idea Screening*
- (c) *Concept Development and Testing*
- (d) *Marketing strategy Development*
- (e) *Business Analysis*
- (f) *Product Development*
- (g) *Test Marketing*
- (h) *Commercialization*

NOTES

NOTES

- ***Speeding Up New-product Development*** : Many companies organize their new-product development process into the orderly sequence of steps starting with idea generation and ending with commercialization. Under this sequential product development approach, one company department works individually to complete its stage of the process before passing the new product along to the next department and stage. This orderly, step-by-step process can help bring control to complex and risky projects. But it also can be dangerously slow. In fast-changing, highly competitive markets, such slow-but-sure product development can result in product failures, lost sales and profits, and crumbling market positions. “Speed to market” and reducing new-product development cycle time have become pressing concerns to companies in all industries. In order to get their new products to market more quickly, many companies are adopting a faster, team-oriented approach called simultaneous (or team-based) product development. Under this approach, company departments work closely together, overlapping the steps in the product development process to save time and increase effectiveness. Instead of passing the new product from department to department, the company assembles a team of people from various departments that stay with the new product from start to finish. Such teams usually include people from the marketing, finance, design, manufacturing, and legal departments, and even supplier and customer companies. Top management gives the product development team general strategic direction but no clearcut product idea or work plan. It challenges the team with stiff and seemingly contradictory goals—”turn out carefully planned and superior new products, but do it quickly”—and then gives the team

whatever freedom and resources it needs to meet the challenge. In the sequential process, a bottleneck at one phase can seriously slow the entire project. In the simultaneous approach, if one functional area hits snags, it works to resolve them while the team moves on. HUL launched its operation Bharat in 1997 to create awareness about its rural brands. The strategy also involved promoting the sales of its “special packs” for rural areas. HUL provided hampers at discounted prices. Consumers were also made aware of the benefits of using HUL products and the affordability of the pack sizes on offer.

NOTES

7.8.2 Product Mix Decisions

“The set of all product lines and items that a particular seller offers for sale”. A company product mix has four important dimensions are :

- **Width** : Product mix width refers to the no. of different product lines the co. Carries. E.g. Procter & Gamble consisting of many product lines, paper, food, household, cleaning, medicinal, cosmetics and personal care products.
- **Length** : Product mix length refers to the total no. of items the Co. carries within its product lines. Procter & Gamble typically carries many brands within each line, for example, it sells eleven laundry detergent, eight hand soap, six shampoo and four dishwashing detergent.
- **Depth** : Product mix depth refers to the no. of versions, offered of each product in the line. Thus Procter & Gamble’s Crest Tooth Paste comes in three sizes and two formulations (paste & Gel)
- **Consistency** : Consistency of product mix refers to how

closely related the various product lines are in end use, production requirements, distribution channels, or some other way.

NOTES

7.9 Product Life Cycle Strategies in Rural Markets

Every living thing and those which are created by a living being has a life span. Entire life span of the creation (Product) is divided into a number of stages - Introduction, Growth, Maturity and Decline as in the case of human being - child, adolescent, adult and aged. The time span of the product in each of these stages will differ from product to product depending on various factors. Analysis of these stages of the product is technically known as "Product Life Cycle". The present paper is an attempt to analyze the product life cycle in the Rural Market. For the purpose of analyzing the concept of product life cycle in rural market the rural market segment is to be divided in to three viz., developed, developing and under developed rural segments. This is because rural is not a single homogeneous market, it is scattered and a product which is at its introduction stage in underdeveloped market may be at the growth stage in the developing market and at the saturation stage in the developed market. This classification is highly significant as the marketing manager can plan marketing strategy for each segment depending on the stage of PLC. Many products that enter rural markets without serious planning die out either soon after the introduction or during the growth stage, e.g. AIM tooth paste from HLL or Ruf-n-Tuf ready to stitch Jeans. Only companies that focus on brand building and those that continue to innovate constantly can sustain themselves in the rural markets.

Product Life Cycle – Some Cases in the Rural Market

A product is normally developed for urban market and then

pushed to the rural market. Recently companies have recognized the importance of rural market and started customizing products for rural markets. Some examples are LG's Television, Philip's hand-wound free power radio and Dabur's Red Tooth Paste. It has also been observed that Product life cycle in the rural market is often longer than it is in the urban market. All stages – of introduction, growth, maturity and decline – last for longer periods in rural markets due to multiple challenges involved in the distribution, communication and adoption of the product.

Product Life Cycle of Wheel

- **Introduction Stage:** The Product was in the introduction stage from 1987 to 1994 and the company was adopting various strategies to establish its product in the rural market.
 - ✓ *1987:* Wheel launched in 1987 against Nirma with the Slogan “Maine maangi thi safaai, aur tu ne di haathon ki jalan” The term “Wheel” was not strategic; rather it was a matter of compulsion. HUL wanted Wheel to be a stand alone business of its own to dominate the low price segment.
 - ✓ *1988-1990:* Wheel's Marketing Strategies: Compared to other high end detergents low Price, low urban focus, and attractiveness of package just sufficient to promote the product in the market, mass media advt. was the lowest and door to door programme was used for promotion of the product in the villages.
 - ✓ *1991-1994:* Wheel faced Competition with Local Player. By establishing Rural Distribution Center the product built strong customer base in Maharashtra and MP.

NOTES

NOTES

- **Growth Stage:** Having established its product in the market from 1995 onwards the company adopted various strategies to improve the turnover and profitability and till 1997 it was able to sail without much problem and growth was visible. During the years 1998-2000 the company was able to face the challenges related to infrastructure and distribution network so as to maintain its growth flow.
 - ✓ *1995-1997:* 34,000 distribution outlets were opened in 34,000 villages and achieved 25% of HUL's total sales in volume. Established sales channels through thousands of small storefronts and achieved better return than higher-end cleaning products. Strong hold at Karnataka, Bihar, MP, Maharashtra, Part of Gujarat.
 - ✓ *1998-2000:* Project Streamline Challenges of Infrastructures and Distribution network were suitably handled and achieved 37% of HUL's total market in volume.
- **Decline Stage:** The product phased its decline in 2001 and the company was able to face the stage by relaunching the product with modification and upgradation and was able to feel the signs of revival by the beginning of 2005.
 - ✓ *2001 'Power' brand strategy:* HUL's net sales growth rate fell and the product was relaunched - 'Best clean with less effort'.
 - ✓ *2002-2003:* Ranked at number 21, the product was the largest brand in HLL.
 - ✓ *2004:* Wheel Active, has been introduced to upgrade consumers to a higher order product.
- **Growth Stage:** The product indicated signs of growth from 2005 onwards by reading the pulse of the market in a better

way and adopting suitable and varied marketing strategies in time.

- ✓ 2005-2007: Wheel continued to grow strongly with turnover exceeding 8 lakh tones.
- ✓ 2008: Achieved sales value over 2000 cr
- ✓ 2009: MRP of Wheel Active Powder brought down from 75 to 67 on a 2 kg pack. 10 pack of Wheel Active has been raised to 275 gm from 250 gm. 275 gm and 560 gm Wheel Green detergent powder to 300 gm and 600 gm.

NOTES

7.10 Summary

- The product concept proposes that consumers will prefer products that have better quality, performance and features as opposed to a normal product.
- In the 1960's, the economist Philip Kotler changed the perception of marketing.
- Kotler's model provides a tool to assess how the organisation and their customers view their relationship and which aspects create value.
- The Product Life Cycle (PLC) is based upon the biological life cycle.
- Products become more profitable and companies form alliances, joint ventures and take each other over.
- Fast Moving Consumer Goods (FMCG) goods are popularly named as consumer packaged goods.
- Product related decisions form one of the 4Ps of marketing mix.
- The company can analyze customer questions and complaints to find new products that better solve consumer problems.

- Test marketing gives management the information needed to make a final decision about whether to launch the new product.

NOTES

7.11 Key Terms

Augmented Product: Inclusion of additional features, benefits, attributes or related services that serve to differentiate the product from its competitors.

Convenience Goods: These are goods which consumers generally purchase frequently without making an effort or as a habit. The purchase is almost spontaneous and the person has already a predetermined brand in mind.

Durable Goods: These are goods which are 'durable' or which last for some time. Examples of such goods would be electric irons, refrigerators, television sets, etc.

Expected Product: The set of attributes or characteristics that buyers normally expect and agree to when they purchase a product.

Generic Product: A version of the product containing only those attributes or characteristics absolutely necessary for it to function.

Industrial Products: These are products which are sold primarily for use in manufacturing other goods or for rendering some service.

Test Marketing: If the product passes functional and consumer tests, the next step is test marketing, the stages at which the product and marketing program are introduced into more realistic market settings. Test marketing gives the marketer experience with marketing the product before going to the great expense of full introduction.

7.12 Questions and Exercises

1. Write note on Product line and product mix decision.
2. Briefly describe various product decision strategies using relevant examples.
3. What are the different strategies that a rural Marketer should adopt to handle this issue?
4. Discuss the Product Life Cycle Strategies in Rural Markets.
5. What are the different level of a product?
6. Describe the product decision and strategies.
7. Discuss the FMCG goods in Rural Markets.

Answers : Self Assessment

1. False 2. True 3. True 4. True 5. False

7.13 Further Reading and References

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International.
- Balkrishnan, Mandira Dutta (1968), "Rural Marketing: Myth and Reality", Economic and Political weekly, August 1868, M-65 to M-80.
- Balram Dogra, Rural Marketing, McGraw Hill Companies.
- Dey, N.B and Adhikari, KingShuk (1998) "Rural Marketing challenges an opportunities", Yojana, 42(5), May 1998,, p.21-22, 41.
- Gaikwad, V.K (1962), "A Research for the Rural Consumer", IN: New Opportunities in Changing Agriculture, Ahmedabad: CMA(IIMA), 1962, pp 159-162.
- Jha Mithileswar (1998), "Rural Marketing: Some Conceptual issues", Economic and Political Weekly, Vol XXIII(No. 9), February 26, 1998, pp M-8 to M-16.

NOTES

NOTES

- Kannan Shanthi (2001), “Rural Market – A world of Opportunity”, Hindu, 11 October, 2011
- Kotler, P., & Armstrong, G. (2010). Principles of marketing. pearson education.
- McCracken, J., J, Pretty and G. Conway. (1988). An Introduction to Rapid Rural Appraisal for Rural Development. Iled, London, England.
- Pradeep Kashyap & Siddhartha Raut, The Rural Marketing, Biztantra.R.V. Bedi, N.V. Bedi, Rural Marketing, Himalaya Publishing.
- Rajagopal, Development of Agricultural Marketing in India Print well (Jaipur). Shepherd, A. (1999), “A guide to maize marketing for extension officers”. Extension Guide 1, Marketing & Rural Finance Service. FAO, Rome.
- T.P. Gopal Swamy, Rural Marketing, Wheeler Publishing (New Delhi) 1998. CMIE Report.

UNIT 8 : RURAL AND URBAN MARKETS

NOTES

8.0 Unit Objectives

8.1 Introduction

8.2 Rural and Urban Markets: A Comparative Analysis

8.2.1 Rural vs Urban Consumers – Challenges

8.3 Parameters Differentiating Urban and Rural Markets

8.4 Difference in Consumer Behaviour in Rural and Urban Markets

8.5 Governing across and beyond the Rural-urban Boundary

8.6 Stages of Buying Decision Process

8.7 Market Targeting

8.8 Segmenting Consumer and Business Markets

8.9 Summary

8.10 Key Terms

8.11 Questions and Exercises

8.12 Further Reading and References

8.0 Unit Objectives

After reading this unit, you should be able to:

- Define Rural Markets.
- Discuss the Rural and Urban Markets.
- Describe the Challenges and Opportunities of Rural Market.
- Explain the Parameters Differentiating Urban and Rural Markets.

8.1 Introduction

NOTES

India is the world's 12th-largest consumer market. By 2025, it is projected to be ahead of Germany, the fifth largest, according to a recent McKinsey (2007) survey. The biggest strength of Indian markets lies in the size, not in individual spending. With the rise in income, over 291 million people will move from desperate poverty to a more sustainable life, and India's middle class will increase incredibly by over ten times from its current size of 50 million to 583 million people. Besides urban and semi-urban areas, rural India has a huge potential. Indian corporations have now recognized the importance of rural markets. It is evident from the efforts made by the companies like Coke, ITC (Indian Tobacco Company) and Hindustan Lever Limited. According to Rajan (2005), Coke, in India has doubled the number of outlets in rural areas from 80,000 in 2001 to 160,000 in 2003, and increased market penetration from 13 per cent to 25 per cent. ITC Limited and Hindustan Lever Limited (now Hindustan Unilever Limited) have initiated rural approach through strategic initiatives such as *e-choupals* and *Project Shakti*. In case of white goods and automobiles, the differences between prices of national and foreign brands have been narrowed down. Majority of the companies have introduced number of services to induce the consumers. Bargaining power of consumers has increased tremendously than ever before due to intense competition. The phenomenal growth of media, availability of loans and lowering of interest rates have caused sudden rush for these products. Liberalization and opening up of the economy has exposed the middle class of the country to the quality products at the competitive prices. There is a huge flow of foreign brands into the Indian market. There have been major structural changes in the economy as a result of globalization. The competition has been intensified. The state like Punjab gets a favorable ranking in terms of ownership of assets,

consumer durables, two-wheelers, and cars in rural areas. In rural Punjab there are many families whose one or more family members have gone abroad. Their standard of living is even far better than many of the urban residents.

8.2 Rural and Urban Markets : A Comparative Analysis

8.2.1 Rural vs Urban Consumers – Challenges

The biggest mistake a FMCG company can make while entering the rural India is to treat it as an extension to the existing urban market. But there is a vast difference in the lifestyles of the rural and urban consumers. The rural Indian consumer is economically, socially, and psychographically different from his urban counterpart. The kind of choices that an urban customer takes for granted is different from the choices available to the rural counterparts. The difference in consumer behavior in essence stems from the way of thinking with the fairly simple thought process of the rural consumer in contrast to a much more complex urban counterpart. On top of this there has hardly been any research into the consumer behavior of the rural areas, whereas there is considerable amount of data on the urban consumers regarding things like - who is the influencer, who is the buyer, how do they go and buy, how much money do they spend on their purchases, etc. On the rural front the efforts have started only recently and will take time to come out with substantial results. So the primary challenge is to understand the buyer and his behavior.

Even greater challenge lies in terms of the vast differences in the rural areas which severely limits the marketer's ability to segment, target and position his offerings. The population is dispersed to such an extent that 90% of the rural population is concentrated in villages

NOTES

Check Your Progress

Describe the comparative analysis of Rural and Urban Markets?

NOTES

with population of less than 2000. So the geographical spread is not as homogeneous as it is with the urban areas owing to vast differences culture and education levels. Also with agriculture being the main business of rural sector the purchasing power of rural consumer is highly unpredictable which can lead to high variations in demand patterns. One more gray area that needs to be probed into is the importance of retailer in rural trade. Rural consumer's brand choices are greatly restricted and this is where the retailer comes into the picture. The rural customer generally goes to the same retailer to buy goods. Naturally there's a very strong bonding in terms of trust between the two. Also with the low education levels of rural sector the rural buying behavior is such that the consumer doesn't ask for the things explicitly by brand but like "laal wala sabun dena" or "paanch rupaye waali chai dena". Now in such a scenario the brand becomes subservient to the retailer and he pushes whatever brand fetches him the greatest returns. Thus, as there is a need to understand the rural consumer, similarly need is there to study the retailer as he is a chief influencer in the buying decision.

8.3 Parameters Differentiating Urban and Rural Markets

The market is a place where buyers and sellers exchange things. In lay man terms "It is a place where buyers and sellers exchange goods/service for some value in return such as Money". So the Market is same everywhere. But, the difference is in the consumer behaviour. There will be different buyers in each market. This is because of different factors which Influence them. So the same way there is a difference between Rural and Urban Market. The factors are so many to define. There is a difference in all the marketing Variables. That is where most of the companies approach with different Marketing Mix and Strategies to Rural Market. The

strategies differs from the urban to rural market. The companies which have understood the phenomena of rural market have succeeded in the market, For example, HUL, ITC, Colgate, Rajdoot Motorcycle. These companies have done a perfect home work and Implemented in terms of effort and Operations. These companies approach shows that there is a difference between Rural and Urban Market. The Differences can be Infrastructure, Economy, Lifestyle, Socio-cultural Background, Availability or reach, Habits, Competition, Consumer Behaviour.

NOTES

1. **Infrastructure** : The facilities like Electricity, Internet, Roads and Buildings, Educational Institutions, Financial Institutions, Communication and Organised Market , Other Facilities differs in urban and Rural market. In urban everything gets implemented soon and Availability is also there. Where as in rural market everything takes a good amount of time.
2. **Economy** : Here the Economy means, the earning Capacity in a rural market. The cost of living always depends upon their way of earning. So, the income levels are unreliable, as most of them are depended upon the seasons and agriculture. So the income levels cannot be a fixed one.
3. **Lifestyle** : The Lifestyle, that is living pattern of both the markets differ a lot. This can be important factor which influences the companies to think of when they approach rural market.
4. **Socio-cultural Background** : Due to the illiteracy level, and Culture adaptability from long time the rural market always gets differ than the urban market. The superstition and other belief as well as the way of thinking towards products and goods differ in these two markets.
5. **Availability or Reach** : Due to the areas which are diverted Geographically and Heterogeneous market the reach is very

NOTES

difficult. The logistics for rural market is a tough task than to reach the Urban Market.

6. Habits : The daily routine of the people makes them to cultivate different habits. Apart from due to the awareness is low in Media terms there will be a difference in the habits. Competition: The competition in the market for brands and Companies always differ. As in rural markets it is always the channel Partner and Retailer plays a vital role. But where as in Urban Market Brand plays a great role.

7. Consumer Behaviour : Last but not least, the consumer behavior is the task for the task for the companies. The mindset of the rural consumer is completely different from Urban Consumer. The Mindset of the consumer is different. For example, in urban market , to buy Electronic Item the customer thinks of Brand and its updated feature. where as in rural market he thinks of in so many ways, such as money, Durability, Buying Capacity and so on. So these mindset makes a difference in both markets. So these are the differences in the rural market and urban market. Those companies which have understood have done well.

8.4 Difference in Consumer Behaviour in Rural and Urban Markets

To understand the brand switchover behavior the migrants were asked to mark their current brand and the previous brand of personal care products. This was done to analyze whether there is any change in the usage of personal care products.

The reasons for brand switch over behavior is also due to the reasons that there are certain brands of personal care products marketed only in rural area, that may be one of the reason for the change in usage of brand after the migration. The key drivers

influencing the change in the previous brand of products are listed in the order ranked by the migrants, they are: Self image, Outdoor display, Attractive Package, influence of sales people, Features of the product, New habit, Awareness about the product, Brand image, perceived quality, Advertisement, Friends influence, Availability of the product, price of the product, Health related The physical boundaries of urban built-up areas often do not coincide with their administrative boundaries.

The areas surrounding urban centers generally have an important role in providing food for urban consumers, with proximity lowering the costs of transport and storage. It is difficult to make generalizations on the nature of peri-urban areas, which depends on the combination of a number of factors including the economic and infrastructural base of the urban center, the region and the nation; the historical, social and cultural characteristics of the area, and its ecological and geographical features. Peri-urban areas around one center are also not necessarily homogenous: high- and middle-income residential developments may dominate one section, while others may host industrial estates and others provide cheap accommodation to low-income migrants in informal settlements. The peri-urban interface around larger or more prosperous urban centres is also the location where processes of urbanisation are at their most intense and where some of the most obvious environmental impacts of urbanisation are located. They are often characterised by: Variations in the characteristics of peri-urban areas can be important. For example, in the growing number of extended metropolitan regions in Southeast Asia, agriculture, small-scale industry, industrial estates and suburban residential developments co-exist side by side. Availability and affordability of transport are essential for the intense movement of goods and the extreme mobility of the population. In other contexts, and especially in less industry-based economies such as many countries in sub-Saharan Africa, agriculture still prevails in

NOTES

NOTES

peri-urban areas although often with significant shifts in land ownership and use. This is especially the case where smallholder productivity is low because of the increasing costs of inputs and limited credit availability. Other problems include poor access to urban markets due to a lack of roads and physical infrastructure and the tight control over access to the urban marketplaces by middlemen and large traders. Thus, despite proximity to urban consumers, small farmers may be easily squeezed out, especially as the value of land in peri-urban areas increases with the expansion of the built-up center.

8.5 Governing across and beyond the Rural - urban Boundary

If well managed, the interactions between towns and countryside are the basis for a balanced regional development which is economically, socially and environmentally sustainable. Local development is increasingly associated with decentralisation processes, on the assumption that local government is 'closer' to citizens – meaning that it is both more accountable to them and that it has a better understanding of local needs and priorities. With regard to rural-urban linkages, local government can play an important role in facilitating positive interactions and limiting negative exchanges:

1. It is best placed for decision-making on physical transport and communication infrastructure; however, expenditure for infrastructure can be significant and well beyond the means of local government. Wider alliances, which increase access to financial resources, are therefore necessary.
2. The management of natural resources and wastes is an important area of local government intervention. However, it often includes much wider areas than those administered by local authorities, and requires alliances with other local,

regional, national and sometimes cross-border governments.

3. National level policies also have an important role, for example, with respect to access to land and land ownership and titling in both rural and urban areas. Clearly, this is not the responsibility of local authorities but is nevertheless crucial for local development planning and practice.

In short, understanding rural-urban linkages matters because it provides the basis for measures that can improve both urban and rural livelihoods and environments. Ignoring them means that important opportunities will be lost, and in many cases it will also contribute to poor and marginal people's hardship. There are urban initiatives that can reduce ecological damage to rural areas, and help support regional development. However, with a narrow urban-centric approach, such initiatives are unlikely to be given the priority they deserve.

Self Assessment

Fill in the blanks:

1. India is the world's largest consumer market.
2. Majority of the companies have introduced number of services to induce the consumers
3. The daily routine of the people makes them to cultivate different
4. The boundaries of urban built-up areas often do not coincide with their administrative boundaries.
5. The of natural resources and wastes is an important area of local government intervention.
6. There are initiatives that can reduce ecological damage to rural areas, and help support regional development.

NOTES

8.6 Stages of Buying Decision Process

NOTES

The smart companies research the buying decision process involved in their product category. The consumers' passes through 5 stages:

- 1. Problem recognition*
- 2. Information search*
- 3. Evaluation of alternatives*
- 4. Purchase decision and*
- 5. Post purchase behavior*

Five stages comprise the consumer buying decision process: problem recognition, information search, alternative evaluation, purchase decision and post-purchase behavior. Each of these stages can be a deliberate action such as researching product options or a subconscious thought like recognizing the juice in the refrigerator has almost run out. A merchant or business must understand the steps a customer goes through to make a purchase. A merchant can influence a customer's purchase by providing targeted information, advertisements or guidance.

- ***Problem Recognition:*** Consumers recognize a problem based on physical cues, stimulus response or a need. For example, a customer could smell fresh bread and realize she is hungry or she could have a broken pair of glasses and know she needs a new pair. Visual clues trigger problem recognition. For example, a beverage in a clear container shows when it is getting low, or a sticker in a car window reminds customers when it is time for an oil change.
- ***Information Search:*** Customers in the information search stage of the buying process look for solutions to their problems or needs. They remember what types of purchases

solved a similar problem in the past. Customers also discuss their needs with friends and relatives to see what solutions they may suggest. For more expensive purchases, customers may read reviews, look through newspapers or research the product online.

- ***Evaluation of Alternatives:*** Consumers evaluate their purchase options based on product attributes, such as technical specifications, through subjective factors, such as brands, and through personal experience, such as sampling or testing products. Consumer and company reviews can influence a consumer's product evaluation.
- ***Purchase Decision:*** A consumer's decision to purchase something includes where to buy, when to buy and whether to buy. For routine goods such as groceries, consumers may simply go to their favorite grocery store, but for electronic purchases, they may browse multiple stores. They will evaluate each merchant based on prior experience with the store, special offers and whether they can return the product easily. A store that's visually appealing, has helpful sales associates and offers specials and discounts influences a buyer.
- ***Post-purchase Behavior:*** After making a purchase, a consumer mentally ranks her purchase satisfaction. She will evaluate if she liked the store, if she enjoys the product and the quality of the product. This evaluation determines whether the customer will purchase the product or brand again and whether it would be from the same store. Customers who are happy with their purchases and feel they received a quality product at a good price, will become repeat customers and will tell others about their experience.
- ***Positioning:*** Having identified the potential segments and selected one or more to target, the marketer must next decide what position to pursue. A position is the way a firm's product,

NOTES

NOTES

brand, or organization is viewed relative to the competition by current and prospective customers. If a position is how a product is viewed, then positioning is a firm's use of all the elements at its disposal to create and maintain in the minds of a target market a particular image relative to competing products.

When positioning a product, the marketer wants to convey the benefit most desired by the target market. A classic example of successful positioning is the original Head and shoulders shampoo. As the first shampoo positioned as a dandruff remedy, the product's name implied the benefit, the medicinal fragrance suggested its potency, and the color and consistency, and the color (blue-green) and consistency (a paste rather than a liquid) indicated that it wasn't an ordinary shampoo.

There are three steps in a positioning strategy:

- 1. Select the positioning concept:* To position a product or an organization, a marketer needs to first determine what is important to the target market. Marketers can then conduct positioning studies to see how members of a target market view competing products or stores on the important dimensions. The results of this research can be portrayed in a perceptual map that locates the brand or organization relative to alternatives on the dimensions of interest.
- 2. Design the dimension or feature that most effectively the position:* A position can be communicated with a brand name, a slogan, the appearance or other features of the product, the place where it is sold, the appearance of employees, and in many other ways. However, some features are more effective than others. It is important to not overlook details. According to a consultant, chairs for customers are vital in

upscale retail environments because they signal that the seller “cares”. Because the marketer has limited resources, decisions have to be made on how best to convey the desired positioning concept.

- 3. *Coordinate the marketing mix components to convey a consistent position:*** Even though one or two dimensions may be the primary position communicators, all the elements of the marketing mix – the product, price, promotion, and distribution – should complement the intended position. Many product failures are the result of inconsistent positioning that confuses consumers. For example, a compact car with a high price tag (Cadillac Cimarron), and Tetley Instant Iced Tea (in Britain, where the people take great pride in brewing tea) both flopped. Over time a position may erode because of lack of attention, become less attractive to the market as needs or tastes change, or be usurped by a competitor. Hence positions must be regularly monitored and sometimes adjusted. In short, understanding rural-urban linkages matters because it provides the basis for measures that can improve both urban and rural livelihoods and environments. Ignoring them means that important opportunities will be lost, and in many cases it will also contribute to poor and marginal people’s hardship.

8.7 Market Targeting

Once the firm has identified its market segment opportunities, it has to decide how many and which ones to target.

- 1. *Evaluating the Market Segments:*** In evaluating different market segments, the firm must look at two factors the segments overall attractiveness i.e., size, growth, profitability scale economics. Second the firm must consider whether

NOTES

NOTES

investing in the segment makes since given the firms objectives and resources.

2. **Selling the Market Segments:** Hearing evaluated different segments, the company can consider five patterns of target market selection.

a. **Single Segment Concentration:** The company may select a single segment Volkswagen concentrates on the small company market and Porsche on the sports can market. Through concentrated market the firms gains a strong knowledge of the segments needs and achieves a strong market presence.

b. **Selective Specialization :** Here the firm selects a no of segments, each objectively attractive and appropriative there may be little or number if synergy among segments but each segment premises to be a money market this multi segment coverage strategy has the advantage of diversifying the firms risk.

c. **Product Specialization :** Here the firm specializes in making a certain product that it sells to several segments. e.g., could be microscope manufactures increases scopes to universities laboratories govt. laboratories commercial laboratories. Through a product specialization strategy , the firm builds a strong reputation in the specific product area.

d. **Market Specialization :** Here the firm concentrates on serving any needs of a particular customer group. E.g., is firm that sell an assortment of products only to university laboratories, including microscopes, oscilloscope, Bunsen, because and chemical flasks. The firm gains a strong reputations in saving this customer group and becomes a channels for feather products that the customer group could use.

- e. **Full market coverage** : Here a firm attempts to serve all customer groups, unit all the products they might need. Only very large firms can undertake a full market coverage strategy. E.g., IBM, General Motors, Coca-Cola etc. i.e. large firms can cover a whole market in two broad ways. Through undifferentiated marketing or differentiated market.
3. **Additional Consideration** : For other consideration must be taken in to account in valuating and selecting segments.
- a. **Ethical choice of market target** : Market targeting sometimes generates public controversy. The public is concerned when marketers take unfair advantage of groups or disadvantaged groups.
 - b. **Segment interrelationships and super segments**: In selecting more than one segment to serve, the company should pay attention to segment interrelationships on the cost, performance and technology side. Companies should try to operate in super segments rather than in isolated segments. A super segment is a set of segments sharing some exploitable similarity.
 - c. **Segment by segment incision plans** : A company would be wise to enter one segment at a time revealing its total expansion plans. The competitors must not know to what segment the firm will move.
 - d. **Inter segment cooperation** : The best way to manage segments is to appoint segment managers with sufficient authority and responsibility for building their segments. Simultaneously, segment managers should not be so segment focused as to cooperate with other company personnel.

NOTES

Check Your Progress

Discuss the Behavioral Segmentation?

NOTES

Self Assessment

State whether the following statements are true or false :

7. To position a product or an organization, a marketer needs to first determine what is important to the target market.
8. A position can be communicated with a brand name, a slogan, the appearance or other features of the product.
9. Once the customer has identified its market segment opportunities it has to decide how many and which ones to target.
10. Over time a position may erode because of lack of attention, become less attractive to the market as needs or tastes change, or be usurped by a seller.
11. Segmentation is a long standing practice in such product and service categories as automobiles, boats, clothing, cosmetics and travel.
12. Sellers can be distinguished according to the occasions they develop a need, purchase a product, or use a product and occasions segmentation can help firms expand product usage.

8.8 Segmenting Consumer and Business Markets

Whenever a market for a product or service canvases of two or more buyers. The market is capable of being segmented i.e. divided into meaningful buyers groups. The purpose of segmentation is to determine only among buyers which may be consequent in choosing away them or making to them.

Bases for segmenting consumer markets: two broad groups of variables are used to segment consumer markets. Some researchers try to form segments by looking at consumer characteristics and other researchers try to form segments by looking at consumer response. The major segmentation variables are:

1. **Geographic segmentation:** geographic segmentation call for dividing the market in to different geographic units such as nations, states, regions, countries, cities. The company can operates in one or a few geographic areas or operates in all but pay attention to local variations.
2. **Demographic segmentation:** in demographic segmentation the market is divided in to groups on the basis of variable such as age, family, size, family life cycle, gender, income etc. demographic variable are the most popular basis for distinguishing customer groups. Here is how certain demographic variables have been used to segment market.
 - a. **Age and life cycle stage:** Consumer wants and abilities change with age.
 - b. **Gender:** Gender segmentation has long been applied in clothing hair styling, cosmetics, and magazines. Occasionally other marketers notice an opportunity for gender segmentation.
 - c. **Income:** Income segmentation is a long standing practice in such product and service categories as automobiles, boats, clothing, cosmetics and travel. How ever income does not always predict the but customer for a given product. E.g., blue collar workers was among the first purchase of colors television sets, it was cheaper for then to buy there sets than to go to movies and restaurants.
 - d. **Generation:** Many recovers are now turning to generation segmentation. Each generation is profoundly influenced by the times in which it grower up the music, movies, polities, and events of that period.
 - e. **Social class:** Social class has a strong influence on prefer the car clothing home furnishings, leisure

NOTES

NOTES

activities, and retailers, money companies design products and services for specific social classes.

3. **Psychographic segmentation:** in this segmentation buyers are divided in to different groups on the basis of life style or personality and values:

a. **life style:** People exhibit many more lifestyles than are suggested by the seven social classes, the goods they consume express their lifestyles companies making cosmetics alcoholic beverages, and furniture are always seeking opportune on life style segmentation.

b. **Personality:** Marketers have personality variables to segment ,markets. They endow their products with brand personalities that correspond to consumer personalities.

c. **Values:** Some marketers segment by core values, the belief systems that under lie consumer attitudes and behaviors, core value go much deeper than behavior or attitude and deter mite, at a basic level and derive oral the long term.

d. **Personality:** Marketers have personality variables to segment markets. They endow their product with brand personalities that correspond to consumer personalities.

e. **Values:** Some marketers segment by core values, the belief systems that under lie consumer attitudes and behaviors, core values go much deeper than behavior or attitude and determinate at a basic level and desire in the long term.

4. **Behavioral segmentation:** many marketers believe that behavioral variables such as occasions, benefits, user states, usage loyalty states are one the best starting points for

constructing market segments.

- a. **Occasions:** Buyers can be distinguished according to the occasions they develop a need, purchase a product, or use a product and occasion's segmentation can help firms expand product usage. E.g., Orange juice is usually consumed at breakfast. An orange juice consumer can try to promote drinking orange juice on occasions level, dinner, midday.
 - b. **Benefits:** Buyer can be clarified according to the benefits they seek E.g., Haley reported true benefit segmentation of the toothpaste market. He found four benefits segments; economy medicinal, cosmetic.
 - c. **User states:** Markets can be segmented into consumers. E.g., user potential user, first time user, and regular uses of a product.
 - d. **Loyal states:** Consumers have buying degree of loyalty to specific brands, stores and other entities.
 - e. **Buyer readiness stage :** A market consists of people in different stages of readiness to buy a product. Some all universe of the product, some all aware, some all informed and some derive the product.
 - f. **Attitude:** Five attitude groups can be found in a market enthusiastic, positive, indifferent, negative
5. **Multi-attribute segmentation:** one of the most promising developments in multi attribute segmentations called geodemographic yields richer descriptions of consumers and neighborhood goods than traditional demographic.

NOTES

Self Assessment

Multiple Choice Questions:

NOTES

13. Markets can be segmented into:

- (a) Consumers (b) Purchases
- (c) Sellers (d) Buyers

14. segmentation call for dividing the market in to different geographic units such as nations, states, regions, countries, cities.

- (a) Physical (b) Timely
- (c) Geographic (d) Vertical

8.9 Summary

- India is the world's 12th-largest consumer market. By 2025, it is projected to be ahead of Germany, the fifth largest, according to a recent McKinsey (2007) survey.
- The biggest strength of Indian markets lies in the size, not in individual spending.
- With the rise in income, over 291 million people will move from desperate poverty to a more sustainable life, and India's middle class will increase incredibly by over ten times from its current size of 50 million to 583 million people.
- Besides urban and semi-urban areas, rural India has a huge potential.
- Indian corporations have now recognized the importance of rural markets.
- The physical boundaries of urban built-up areas often do not coincide with their administrative boundaries.
- The firm gains a strong reputations in saving this customer group and becomes a channels for feather products that the customer group could use.
- The firm gains a strong reputations in saving this customer group and becomes a channels for feather products that the customer group could use.

8.10 Key Terms

Behavioral Segmentation: Many marketers believe that behavioral variables occasions, benefits, user states, usage loyalty states one the best starting points for constructing market segments.

Benefits: Buyer can be clarified according to the benefits they seek.

Buyer Readiness Stage: A market consists of people in different stages of readiness to buy a product. Some all universe of the product, some all aware, some all informed and some derive the product.

Full Market Coverage: here a firm attempts to serve all customer groups, unit all the products they might need. Only very large firms can undertake a full market coverage strategy.

Loyal States: Consumers have buying degree of loyalty to specific brands, stores and other entities.

Market Specialization: Here the firm concentrates on serving any needs of a particular customer group.

Occasions: Buyers can be distinguished according to the occasions they develop a need, purchase a product, or use a product and occasions segmentation can help firms expand product usage.

Personality: Marketers have personality variables to segment markets. They endow their product with brand personalities that correspond to consumer personalities.

Product Specialization: Here the firm specializes in making a certain product that it sells to several segments. The firm gains a strong reputation in serving this customer group and becomes a channel for other products that the customer group could use.

User States: Markets can be segmented into consumers.

Values: Some marketers segment by core values, the belief systems that underlie consumer attitudes and behaviors, core values go much deeper than behavior or attitude and determine at a basic level and desire in the long-term.

NOTES

8.11 Questions and Exercises

NOTES

1. Describe the comparative analysis of Rural and Urban Markets.
2. Explain the difference of Consumer Behaviour in Rural and Urban Markets.
3. Discuss the segmenting consumer and business markets.
4. What are the parameters of differentiating Urban and Rural Markets?
5. Describe the stages of Buying Decision process.
6. Explain the Market Targeting.
7. Discuss the Behavioral Segmentation.
8. Define product specialization.
9. Explain the Selective Specialization.
10. What do you know about “Governing across and beyond the rural-urban boundary”?

Answers : Self Assessment

1. 12th
2. Consumers
3. Habits
4. Physical
5. Management
6. Urban
7. True
8. True
9. False
10. False
11. True
12. False
13. (a)
14. (c)

8.12 Reading and References

- Awadesh Kumar Singh, *Rural Marketing: Indian Perspective*, New Age International.
- Balkrishnan, Mandira Dutta (1968), “Rural Marketing: Myth and Reality”, *Economic and Political weekly*, August 1868, M-65 to M-80.
- Balram Dogra, *Rural Marketing*, McGraw Hill Companies.
- Dey, N.B and Adhikari, KingShuk (1998) “Rural Marketing challenges an opportunities”, *Yojana*, 42(5), May 1998,, p.21-22, 41.
- Gaikwad, V.K (1962), “A Research for the Rural Consumer”, *IN: New Opportunities in Changing Agriculture*, Ahmedabad: CMA(IIMA), 1962, pp 159-162.
- Jha Mithileswar (1998), “Rural Marketing: Some Conceptual issues”, *Economic and Political Weekly*, Vol XXIII(No. 9), February 26, 1998, pp M-8 to M-16.
- Kannan Shanathi (2001), “Rural Market – A world of Opportunity”, *Hindu*, 11 October, 2011
- Kotler, P., & Armstrong, G. (2010). *Principles of marketing*. pearson education.
- McCracken, J., J, Pretty and G. Conway. (1988). *An Introduction to Rapid Rural Appraisal for Rural Development*. Iled, London, England.
- Pradeep Kashyap & Siddhartha Raut, *The Rural Marketing*, Biztantra.R.V. Bedi, N.V. Bedi, *Rural Marketing*, Himalaya Publishing.
- Rajagopal, *Development of Agricultural Marketing in India* Print well (Jaipur). Shepherd, A. (1999), “A guide to maize marketing for extension officers”. *Extension Guide 1*, Marketing & Rural Finance Service. FAO, Rome.

NOTES

- T.P. Gopal Swamy, Rural Marketing, Wheeler Publishing (New Delhi) 1998. CMIE Report.

NOTES

UNIT 9 : PRICING STRATEGIES

NOTES

9.0 Unit Objectives

9.1 Introduction

9.2 Pricing Elements

9.3 Pricing strategies

9.4 Production Costs

9.5 Finalization of Price

9.6 Rural Pricing Strategies

9.7 Pricing and Income Levels

9.8 Competition and Pricing

9.9 Summary

9.10 Key Terms

9.11 Questions and Exercises

9.12 Further Reading and References

9.0 Unit Objectives

After reading this unit, you should be able to:

- Define Product and Pricing Strategies for Rural Market.
- Discuss the Production Costs.
- Describe the Finalization of Price.
- Explain the Economies of Scale of Manufacture.

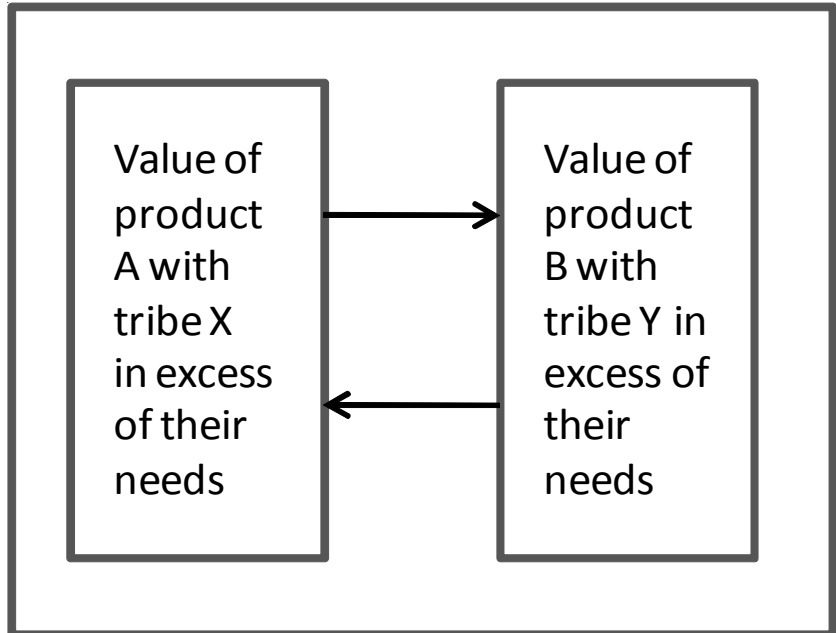
9.1 Introduction

In the pre-industrial revolution era, the tribe centred political entities believed in barter system as a means of commerce in which

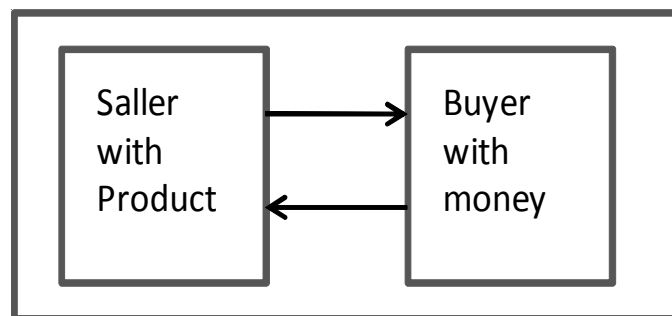
Pricing Strategies

two tribes swapped their produce as per the value each had for each other's products.

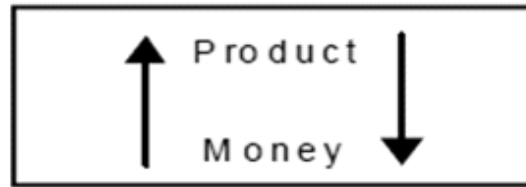
NOTES



For example if tribe X has excess of cotton and tribe Y has excess of wheat they would exchange the products to satisfy their respective needs.



Seller with product Buyer with money Then came the industrial revolution with mass production techniques and emergent market for the products, which was far flung in area. It is believed that the money system started in China and it gave commerce the much-needed fillip. Now people could buy and sell products as per their requirements for a larger variety of things.



Till that time there were only a few manufacturers of a product and competition was not known as a business reality. With industrial revolution came the affluence in the society and demand for most products started increasing. With demand increase came competition. Today we see the competition as a multi-headed dragon swallowing up lesser products or brands or poorer managed firms.

9.2 Pricing Elements

Product pricing in highly competitive world has assumed unprecedented importance in the management of rural markets for firms' profitability. The following are the elements considered while prices are fixed :

- Production unit cost
- Expected units sales in a given period like one year
- Profit plans
- Brand image or equity
- Seasonality of business
- Market segment
- Competition
- Product life cycle stage
- Guaranty/warranty offered
- Payment methods and terms
- Discounts/special offers
- Range of products with the firm
- Product launches
- Product value and utility for the customers

NOTES

Check Your Progress

Explain the Economies of Scale of manufacture?

NOTES

It is pertinent to note here that in rural markets, the MTBP - Mean Time Between Purchase becomes eminently vulnerable with price. There are usually three types of market situations and each gives pricing opportunities in different ways:

- Monopoly market
- Oligopoly market
- Perfect competition

In case of monopoly, which are a rarity today in the country, there is only one supplier of the product and in such cases the firm has the following options:

- Charge premium or skimming price
- Keep cost plus, pricing, where the company adds its planned profit margin to the unit cost of sales.

In oligopoly situations, there are just a few suppliers, say four to five. In such cases, customer's purchasing power governs the price. In some cases, the firms join hands to form price cartels with a view of keeping prices high for all the firms. In many countries, including India, cartel formation is considered illegal.

Perfect competition means having a large number of suppliers of the product. These could be of same type and size or could belong to different categories like the small scale unorganized sector or large scale organized sector. In between there are medium scale sectors, government companies, multinational companies, and joint ventures. Unorganized sector have much lower overheads, for at times they avoid paying taxes and hence can price their products quite low.

However, compared to monopoly's skimming prices, perfect competition usually brings about penetrating prices. Let us consider bulk sale of product. In most of these cases the price is negotiated between the seller and the buyer. For products for mass consumption, with mass production techniques, costs can be brought down and

lower price can be the result. Products for mass consumption are becoming brand managed and customers and brand conscious. Firms can put higher prices on their products than competition and still keep their market share mostly in urban markets, for the following reasons:

- Better brand equity
- Better distribution network
- Loyal customers
- Complete range of products
- Better service to customers
- Differentiated product
- Better delivery periods
- Better payment terms
- Comprehensive longer guaranty and warranty
- Better value for money
- Better sales team
- Tailor made products or customization of products

It must be clearly understood that the customer's don't pay for the product alone. They pay for the value or the benefit the product is going to provide them. It is the customer's perception of products value to them, which justifies the price. Price and product quality gets firmly established in the minds of the customers and many times, lowering of prices to increase market share becomes counterproductive as the customers feel that there has been a lowering of quality in the product which has caused the price reduction. The price, which is fixed for a new product, is based on the following:

- Price of competitive product, if any
- Cost to manufacture
- Market segment for the product
- Product position in the market place
- Hierarchy of distribution network, it determines the total sales

NOTES

NOTES

commission to be paid to the channel members

- Product itself, its uniqueness as compared to competition
- Transportation costs: It becomes important in rural markets with long distances, bad roads and having at times difficult accessibility.

As soon as competition forces its way in the market the firm has to decide to have one of the following price methods. For top quality product, skimming price or top price, should be chosen which will place the product in the elitist market segment and generate good profits. The high price can be sustained because of high brand value. For top quality product a medium price, will give good value for money to the customers and place the product in select market. For top quality product a low price or penetrating price, will would place the product at the lower end of the segment and increase firms market share. It will act as an entry barrier for new players. For medium quality product a top or skimming price would provide extra profits, and also invite competition. For medium quality product a medium price will give the customers value for money and place the product in select market segment. For medium quality product a low or penetrating price would place the product at lower end of the segment, give value for money, increase market share and profitability and increase barriers for new entrants. For low quality product a top or skimming price would work only during monopoly regime.

Otherwise, it will lower market share and invite competition. For low quality product a medium price will place the product in select market segment and invite competition. For low quality product a low or penetrating price would place the product at lower end of the market segment, increase market share and become a price barrier for entry of new players. In rural markets

this pricing policy will pay dividends. Hence, considering the quality of the product, its position in the life cycle, and market share, a pricing strategy has to be evolved by the firm. Firms must understand the price-demand pattern for the product based on the selected market segment. The demand and price ratio varies with products; in some the demand remains inelastic irrespective of price while for some products even a slight change in product price changes the demand pattern drastically. The change in demand is also dependent on the market segment being catered to, by the product. It can be seen that the demand of high end products like Mercedes car, air travel in the first class, five star hotel rooms and some of the essential items of daily needs like food, the demand remains near constant with price changes as given below.

For consumer durables products like refrigerators, ovens, fans the price is a major factor in purchase decisions. Products, which can show unique features, have not many known substitutes, and which have low maintenance costs are less price sensitive. As cost of manufacture does affect the final price, let us discuss what the cost is made of. There are fixed costs, the overheads and variable costs, which constitute the total manufacturing cost. Fixed costs remain unchanged with the volume of production, like the interest the firm pays the salaries, power, and telephone and rental bills. In fact even if there is no manufacturing these payments have to be made. Variable costs depend on the volume of production like the cost of material, labour, etc.

9.3 Pricing Strategies

1. ***Low cost/ cheap products:*** This follows from the product strategy. The price can be kept low by low unit packaging like paisa pack of tea, shampoo sachets, vicks 5 grams tin,

NOTES

NOTES

etc. this is a common strategy widely adopted by many manufacturing and marketing concerns.

2. ***Refill packs / Reusable packaging:*** In urban areas most of the health drinks are available. The containers can be put to multipurpose uses. Such measures can a significant impact in the rural market. For example, the rural people can efficiently reuse the plastic bottle of hair oil. Similarly the packages of edible oil, tea, coffee, ghee, etc., can be reused. Pet jars free with the Hasmukh Rai and Co Tea, Ariel Super Compact.
3. ***Application of value engineering:*** In food industry, Soya protein is being used instead of milk protein. Milk protein is expensive while Soya protein is cheaper, but the nutrition content of both is the same. The basic aim is to reduce the value of the product, so that a larger segment can afford it, thus, expanding the market.
4. ***Large volume-low margins (Rapid or slow penetration strategy):*** Marketers have to focus on generating large volumes and not big profit margins on individual products. If they price their product at a level which can lead to good volumes, then they can still generate good returns on the capital employed.
5. ***Overall efficiency & passing on benefits to consumers:*** For rural products, the strategy should be to cut down the production, distribution and advertising costs and passing on these benefits to the customers to further increase the turnover. Most often, it has been observed that advertising has less to do with product sales in the rural areas. If an organization gets the price point right, then it can work in rural market.
6. ***Low volume-low price strategy:*** This strategy of reducing prices by reducing the package size in order to make it appear

more affordable, is delivering very good results for a large number of FMCG product categories, in the rural markets of India. In categories where maintaining the price point is extremely critical, this strategy is delivering very good results.

7. **Ensuring price compliance:** Rural retailers, most of the times, charges more than the MRP. The manufacture has to ensure price compliance either through promotional campaigns, as was done by Coca Cola, or by ensuring the availability of products at the retail outlets directly.

NOTES

9.4 Production Costs

Total cost = fixed cost + variable cost.

Suppose for manufacturing 5000 computers, the fixed cost is rupees 30 million and variable cost rupees 20 million then the total cost would as following :

Total cost for 5000 computers = (30+20) = 50 million rupees

Fixed cost works out to rupees 6000 and variable cost rupees 4000 per computer.

Fixed cost per computer = $30000000/5000 = 6000$

Variable cost per computer = $20000000/5000 = 4000$

Total cost per computer = $6000 + 4000 = 10,000$

Let us see what happens when the firm doubles the production to 10000

The fixed cost gets reduced as now the total fixed cost is divided by 10000 as follows.

Fixed cost = $30000000/10000 = 3000$

Self Assessment

Fill in the blanks:

1. in highly competitive world has assumed unprecedented importance in the management of rural markets

NOTES

for firms' profitability.

2. Firms resort to penetrating pricing in order to increase their
3. Firms strive for achieving cost leadership by means of manufacturing to achieve economies of scale and providing the desired experience to the
4. subsidy is actually the money given as share of common advertising by the firm and the channel member.
5. Advertising subsidy is actually the money given as share of common advertising by the firm and the member.

9.5 Finalization of Price

The following attributes are taken into consideration at the time of price finalization:

1. Price and quality perceptions of the target market customers.
In many products, price and quality do get interlinked and any lowering of price or keeping price lower than competition has a definite effect on customer's mindset, as they believe lower price could mean lesser quality product too.
2. Brand equity.
3. Advertising penetration and effect on the customers.
4. Price of other products of the firm in relative terms of their importance to the customers.
5. International farm produce prices could depend on the relative balance of payment situation with a particular country, as well as currency exchange rates and tariffs. (It would be of interest to the students to know that during the existence of the USSR, India's trade with it was known as rupee trade, as both the countries were short of hard currency, the dollars. Needless to add that the USSR had no need of

our rupee and we had none of their Money, it was in true sense a barter arrangement where each country could sell to the other some useful but mostly useless items to the other country).

6. It could also be in two parts, one barter and the other could be cash payment. It can be said that the firms need to have information on competition and the customer's psychology before the price can be fixed correctly. As the markets are dynamic entities, pricing mechanism also has to be kept in readiness for changes as per market needs and firms own objectives.

As most consumer and several industrial products are sold through distribution channels, their price must take in to account the margins to be offered to the channel members or their possible mark-ups, in the event that they are given one price by the manufacturer and asked to add their profits or mark-up on to the price. Hence the retail price could be made up of the following two different offers as follows:

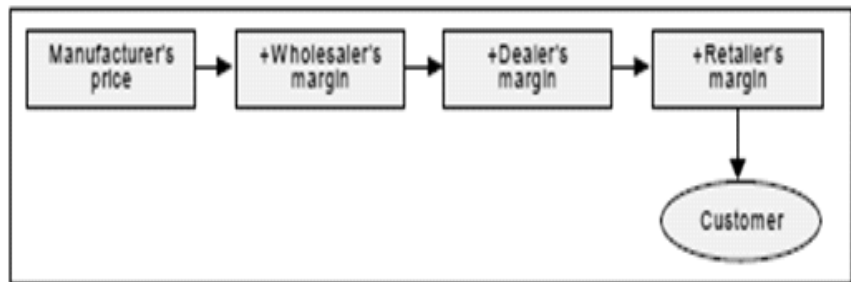
1. Technical bid giving the product's technical specifications, capabilities and conformance to the specifications needed by the buyer.
2. Commercial bid giving the price and other terms of business.

The sealed bids are opened on a designated date, time and place in front of the bidders. First the technical bids are seen and those not meeting with the desired specifications are excluded from the tender.

Next, the commercial bids are opened and the buyer decides on its basis the firm/s on whom the order is to be placed.

NOTES

NOTES



When the firm offers its price to the customer as Maximum Retail Price (MRP), it includes the margins of the channel members, which could be as shown above or differently. Besides, the firms offer, cash discounts if the channel members pay cash. Discounts on offer could be in the following situations:

1. Cash discount on cash purchases.
2. Turnover discounts given on the basis of the channel member achieving a given and accepted turn over in product sale.
3. Inventory clearing discount is given when the firm has large inventory and the discount acts as incentive for the dealer to buy more.
4. Quantity discount is offered for purchase of a minimum specified quantity.
5. Advertising subsidy is actually the money given as share of common advertising by the firm and the channel member.
6. Off-season discount for buying the product when it is not needed like buying woollens during summers and air conditioners during winters. (In fact, for air conditioners there is, at times a premium during summer).

9.6 Rural Pricing Strategies

One of the key aspects of rural pricing is the distribution cost that adds to the overall cost of the product. Marketers on the other hand have felt that the rural markets will fetch them lower

prices. Between this dilemma rural marketers have always looked at offering. Those products to the consumers which offer more value at a lower cost. On the other hand, marketers have also been making attempts to help consumers in rural markets switch to their products with better price offer than their competitors or the nearest local version of the product. But before we dwell on this issue further, it will be critical to evaluate some fundamental price structures that exist in rural markets.

Rural markets usually work on two different price levels for similar products.

- When the product is distributed from company sources at the rural retail markets, the price structures include the cost of distributing right at the retail or distributor level.
- Alternatively, in other cases, the local retailer also visits the nearest distributor/dealer at the nearest town or district to collect his stocks, and there the retailer ad distribution to the product.

NOTES



Figure 9.1: Types of Traders in Periodic Markets

The above Figure 9.1 is a broad indication of the kind of retailers we are referring to in point (2).

NOTES

At both these levels the pricing structures are very different owing to the nature and amount of logistics cost incurred being different. In some instances where marketers are not able to approach certain markets for absence of proper infrastructure (primarily roads), the local retailers take the onus of approaching the nearest distributor/dealer/stockiest. On the other hand, the local haats and fairs also offer products at the best deal and so the third pricing structure though more a part of promotional pricing strategy, also coexists along with the first two. With different price structures, very often, for the same products rural marketers find it difficult to ensure the sustainability. Sustainability also refers to maintaining similar price levels. If the monsoon season leads to bad road conditions and the local retailer incurs a higher cost of reaching the goods to his village, the final product price will also vary substantially. However, as mentioned earlier, due to usage occasions and usage amount of average FMCG products being less than urban markets, price differences in aggregate terms are not usually varying. Sachets, one of the most successful forays in rural markets are usually low in amount and cost. The price differentials are also at times affordable from the consumer's perspective.

Self Assessment

State whether the following statements are true or false:

7. Haats and melas form an integral part of the rural consumer's shopping patterns.
8. Marketers on the other hand have felt that the rural markets will fetch them higher prices.
9. International farm produce prices could depend on the relative balance of payment situation with a particular

country.

10. A key concern facing marketers in respect of Urban pricing is issue the branded versus unbranded goods.
11. Inventory clearing discount is given when the firm has large inventory and the discount acts as incentive for the dealer to buy more.
12. Firms resort to penetrating pricing in order to increase their market share.

NOTES

9.7 Pricing and Income Levels

Another issue critical to the rural markets is the large income disparity that results in the consumption patterns being not so regular. In fact, between the urban and rural consumers the income disparity is fairly large and hence prices for average products remain different. As a result the basic price differentials are fairly large between these markets.

While the highest percentage of aspirants are in the rural sector, the urban sector has the highest number of well-off, which in practical term refers to middle and upper middle. With aspirants and climbers forming a substantial part of the market, the value sought from the product will be higher and marketers need to trudge this path very carefully. It does not have any easy correlation to selling cheap and stripped down versions of the products, but offering the best value. Small pack sizes will get easy.

A key concern facing marketers in respect of rural pricing is issue the branded versus unbranded goods. Rural consumers are aware of the branded product vis-a-vis price as a critical aspect of branded goods consumption. The local and spurious product will continue to exist alongside the branded products. It does become difficult for consumers to choose at times, considering the price disparities and the income scarcities. The spurious products are very common in the

NOTES

rural settings where close imitation of a popular brand, with similar packaging could outsell the original simply because it is sold at a far lower price, sometime a differential of 50%. AC Nielson through a study conducted in rural markets were able to establish that sales of spurious Vicks equaled that of the original brand.

Promotional Discounts/Promotional Pricing

Having discussed some of the basic issues in pricing for rural markets, this section looks at some of the pricing strategies actually adopted by marketers, which are usually covered in the rural markets. Though the remaining pricing strategies are also adopted by the rural markets, promotional pricing is usually the preferred route. Geographical pricing and product mix pricing are also adopted by marketers for any given market. LG’s Sampoorna range of TV was launched exclusively for the suburban and rural markets, which was a stripped down version of the core product, eventually meeting with little success in the rural markets. The critical point for rural

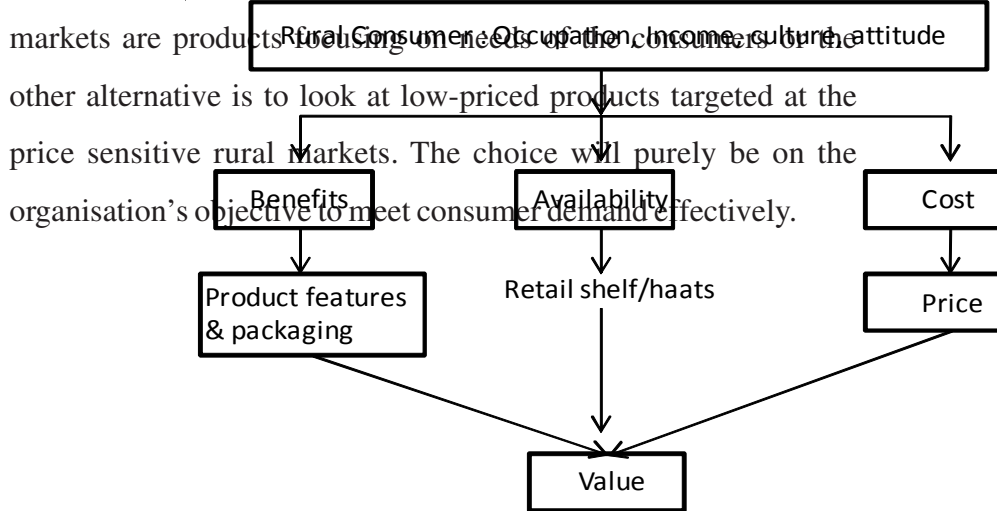


Figure 9.2: Product and Price as Critical Factors

The figure above represents the product versus pricing issue, which will be critical to consider for organisations entering rural markets. It is always not be true that only the cheap products will sell in the rural markets. ‘Usha found that the sale of its economy models were falling sharply in rural areas. Farmers preferred Usha’s premier Century brand, thought it was priced 20% higher, as they found the value proposition of the latter, more in keeping with their perception of value. Promotional pricing in the rural markets may involve introductory price offers targeted at promoting trial, free samples or quantity discounts to ward off competition. The following table summarizes the type of price discounts that are in unusual practice.

NOTES

Types of Discount	Objectives
1. Volume discounts	To encourage consumer to buy larger volumes and avail of much lower prices. May succeed at post harvest, festival or pre marriage seasons.
2. Trade discounts	To motivate channel members to service customers effectively. Usually given at the time of special schemes or product introduction or new model introduction.
3. Seasonal discounts	To stimulate demand in lean periods and to smoothen wide fluctuations in demand. Usually offered in periods preceding and following peak demand periods.
4. Promotional discounts	To stimulate channel members to make special efforts to promote demand. Usually for a limited period.

Table 9.2: Promotional Pricing: Price Discount

Source: Adapted from Rural Marketing by CGS Krishnamacharylu and Lalita Ramkrishnan, Pearson Education 2002.

A key consideration is also the sources of income in the rural sector, which affect consumption patterns. With harvest season, disposable income goes up and farmers have a tendency to experiment with purchases. The synchronising of price offers and assortment offers to such patterns is referred to as 8 income stream

NOTES

and consumption basket offering”. This in effect means that the price and positioning decision is therefore influenced not just by the income received but also on when it is received and how it is allocated among different needs. Haats and melas form an integral part of the rural consumer’s shopping patterns. Owing to the nature of such fairs and timings purchases are usually varied and even made in bulk. For instance, the Sonapur Cattle Fair, finds buyers and sellers for not just cattle but as a variety of other elements are also dovetailed onto the fair, it witnesses all kinds of purchases and bargains beyond cattle. Naturally, price will be the key differentiator for most purchases. The Kumbh Mela, the annual ritual of the Hindus, also witnesses a large number of visitors from the rural countryside. Marketers encash every opportunity to offer the best deals and product, on such occasions, to take advantage of the heightened purchase intention.

9.8 Competition and Pricing

You are aware that apart from the costs of a product and the consumers capacity to pay, the third leg of the pricing decision tripod is the competition, In any competitive category, prices need to be responsive to competition’s price points as in price elastic and value for money kind of market scenario, small differentials in seemingly similar product offers could see you lose market to your competitors. The rural markets represent situation where competitor presence may be thin at present but as more and more organisations warm to the emerging potential of rural markets, the pricing decisions would need to be very sensitive to what the competition offers. Competitive pricing offer takes the form of price reduction, package size reduction accompanied by price reduction or offering more volume for the same price. Price setting becomes an issue when your competitor either reduces his price or initiates a price

increaser While your final decision on price fixation under such situations may rest on an analysis of the price sensitivity of the consumer and your own costs, certain generalisations can indicate direction towards appropriate strategy. A price rise by the competitor should be matched in a period of growing demand or rising costs. If you can manage to control your costs to existing level, and are in highly price conscious market, market advantage is likely to occur when you maintain your prices while the competition initiates a price increase. If economies of scale or technology enable you to get a clear cost advantage, you could benefit significantly in actually lowering prices even if it means narrower margins because you could preempt or oust competition from the market.

Rural markets have been shown to be highly price conscious markets, specially when the brands are perceived to be more or less similar. When the competition introduces a price reduction on his products, you may need to carefully consider the price maintenance option. Not reducing the price may mean loss of consumer franchise in extremely price conscious markets. On the other hand, if the market is more value conscious and has displayed brand loyal behaviour, reinforcing the value proposition of your brand may allow you to retain your position even in the face of price reduction. Matching the price cut initiated by the competition is indicated when the market is, as noted above, very price conscious and does not display any notable brand preference or loyalty to your brand. A strategy to counter direct price cut is to offer more affordable, but smaller package sizes. Dr. Shiva Kumar, GM, Marketing (Personal) Products, FILL, stressed that while all Ps apply in the hinterland, price is the single most important determinant. Product and package innovations however can be used to gain instant success as value proposition can be built around smaller sized, specially designed offers for the rural market as demonstrated by Brooke Bond's Al,

NOTES

NOTES

Wheel, Kissan, Lipton Tiger etc. Following the reduction in excise duties for tooth powder, Colgate Palmolive, in a bid to convert rural non users to users, has reduced prices even further and introduced a special 50 gram pouch and even a ten gram pouch, priced at 6 and 1.50 respectively. This has been done with an objective of initiating usage of tooth powder among all the members of the family as well as to preempt competition.

Self Assessment

Multiple Choice Questions:

13. Haats and melas form an integral part of the rural consumer's patterns.
(a) shopping (b) design (c) working (d) sales
14. Rural markets have been shown to be highly conscious markets.
(a) brand (b) price (c) product (d) quality
15. A price rise by the competitor should be matched in a period of growing or rising costs.
(a)significance (b) production (c) price (d) demand

9.9 Summary

- Product pricing in highly competitive world has assumed unprecedented importance in the management of rural markets for firms' profitability.
- There are usually three types of market situations and each gives pricing opportunities in different ways.
- In case of monopoly, there is only one supplier of the product.
- In oligopoly situations, there are just a few suppliers, say four or five. Perfect competition means having a large number of suppliers of the product.

- In most of these cases the price is negotiated between the seller and the buyer.
- The price of a new product, is based on the price of competitive product, cost to manufacture, product position in the market place and product itself, its uniqueness as compared to competition.
- Firms must understand the price, demand pattern for the product based on the selected market segment.
- The demand and price ratio varies with products; in some the demand remains inelastic irrespective of price while for some products even a slight change in product price changes the demand pattern drastically.
- Rural markets have been shown to be highly price conscious markets.
- A key consideration is also the sources of income in the rural sector, which affect consumption patterns.

NOTES

9.10 Key Terms

Experience Curve Effect: With experience in manufacture over a period of time, the workers improve their skills and human error losses get reduced. This reduction directly reflects in lowering of variable costs and this is known as the Experience Curve Effect.

Promotional Discounts: To stimulate channel members to make special efforts to promote demand. Usually for a limited period.

Seasonal Discounts: To stimulate demand in lean periods and to smoothen wide fluctuations in demand. Usually offered in periods preceding and following peak demand periods.

Trade Discounts: To motivate channel members to service customers effectively. Usually given at the time of special schemes or product introduction or new model introduction.

Volume Discounts: To encourage consumer to buy larger volumes and avail of much lower prices. May succeed at post harvest, festival or pre marriage seasons.

NOTES

9.11 Questions and Exercises

1. Explain the Economies of Scale of manufacture.
2. Describe the Finalization of price.
3. Explain the Promotional Pricing.
4. Explain the types of traders in periodic markets.
5. Explain the Rural Pricing Strategies.
6. What do you know about promotional discounts?
7. Explain the Experience Curve Effect.
8. Describe the pricing elements.
9. Explain the competition and pricing.
10. Define Trade Discounts.

Answers : Self Assessment

1. Product Pricing
2. Market Share
3. Workers
4. Advertising
5. Channel
6. True
7. False
8. True
9. False
10. True
11. True
12. (a)
13. (b)
14. (d)

9.12 Further Reading and References

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International.
- Balkrishnan, Mandira Dutta (1968), “Rural Marketing: Myth and Reality”, Economic and Political weekly, August 1868, M-65 to M-80.
- Balram Dogra, Rural Marketing, McGraw Hill Companies.
- Dey, N.B and Adhikari, KingShuk (1998) “Rural Marketing challenges an opportunities”, Yojana, 42(5), May 1998,, p.21-22, 41.
- Gaikwad, V.K (1962), “A Research for the Rural Consumer”, IN: New Opportunities in Changing Agriculture, Ahmedabad: CMA(IIMA), 1962, pp 159-162.
- Jha Mithileswar (1998), “Rural Marketing: Some Conceptual issues”, Economic and Political Weekly, Vol XXIII(No. 9), February 26, 1998, pp M-8 to M-16.
- Kannan Shanthy (2001), “Rural Market – A world of Opportunity”, Hindu, 11 October, 2011
- Kotler, P., & Armstrong, G. (2010). Principles of marketing. pearson education.
- McCracken, J., J, Pretty and G. Conway. (1988). An Introduction to Rapid Rural Appraisal for Rural Development. Iled, London, England.
- Pradeep Kashyap & Siddhartha Raut, The Rural Marketing, Biztantra.R.V. Bedi, N.V. Bedi, Rural Marketing, Himalaya Publishing.
- Rajagopal, Development of Agricultural Marketing in India Print well (Jaipur). Shepherd, A. (1999), “A guide to maize marketing for extension officers”. Extension Guide 1, Marketing & Rural Finance Service. FAO, Rome.

NOTES

Pricing Strategies

- T.P. Gopal Swamy, Rural Marketing, Wheeler Publishing (New Delhi) 1998. CMIE Report.

NOTES

UNIT 10 : ROLE OF MICRO-FINANCE IN RURAL INDIA

*Role of Microfinance
in Rural India*

NOTES

10.0 Unit Objectives

10.1 Introduction

10.2 Legal and Regulatory Framework for the Microfinance
Institutions in India

10.3 A Profile of Rural India

10.4 Rural India and Microfinance

10.5 Success Factors of Microfinance in Rural India

10.6 Marketing of Microfinance Products

10.7 Apni Mandi

10.8 Summary

10.9 Key Terms

10.10 Questions and Exercises

10.11 Further Reading and References

10.0 Unit Objectives

After reading this unit, you should be able to:

- Analyze the growth of microfinance sector developed in India and see potential for the microfinance institutions, NGOs, SHGs in the market.
- Analyze the structure and pattern of microfinance programme in rural Indian by the MFIs, NBFCs.
- Understand the marketing of microfinance products in rural market.
- Study the importance and role of microfinance in poverty alleviation and profitable agriculture activities.

NOTES

10.1 Introduction

Microfinance economically disadvantaged segments of society, for enabling them to raise their income levels largest in term of population after China. India's GDP ranks among the top 15 economies of the world. However, around 300 million people or about 80 million households are living below the poverty line, i.e. less than \$2 per day according to the World Bank and the poorest are which earns \$1 per day. It is further estimated that of these households, only about 20% have access to credit from the formal sector. Out of these 80 million house hold, 80% takes credit from the informal sources i.e. local Zamindars, Chit Funds etc. With about 80 million households below MFIs include non-governmental organizations (NGOs), credit unions, non-bank financial intermediaries, and even a few commercial banks.

10.2 Legal and Regulatory Framework for the Microfinance

Institutions in India

- **Societies Registration Act, 1860** : NGOs are mostly registered under the Societies Registration Act, 1860. Since these entities were established as voluntary, not-for-profit development organizations, their microfinance activities were also established under the same legal umbrella. Main purpose is:
 - ✓ Relief of poverty
 - ✓ Advancement of education
 - ✓ Advancement of religion
 - ✓ Purposes beneficial to the community or a section of the community.

- **Indian Trusts Act, 1882** : Some MFIs are registered under the Indian Trust Act, 1882 either as public charitable trusts or as private, determinable trusts with specified beneficiaries/ members.
- **Not-for-profit Companies Registered under Section 25 of Companies Act, 1956** : An organization given a license under Section 25 of the Companies Act, 1956 is allowed to be some of the provisions of the
- **Companies Act, 1956** : For companies that are already registered under the Companies Act, 1956, if the central government is satisfied that the objects of that company are restricted to the promotion of commerce, science, art, religion, charity or any other useful purpose; and the constitution of such company provides for the application of funds or other income in promoting these objects and prohibits payment of any dividend to its members, then it may allow such a company to register under Section 25 of the Companies Act.

NOTES

10.3 A Profile of Rural India

- 350 million Below Poverty Line.
- 95 % have no access to microfinance.
- 56 % people still borrow from informal sources.
- 70 % don't have any deposit account.
- 87 % no access to credit from formal sources.
- Annual credit demand is about 70,000 crores.
- 95 % of the households are without any kind of insurance.
- Informally Microfinance has been in practice for ages.

NGOs are mostly registered under the Societies Registration Act, 1860. Since these entities were established as voluntary, not-for-profit development organizations, their microfinance activities were also established under the same legal umbrella.

Check Your Progress

Describe the legal and regulatory framework for the microfinance institutions in India?

NOTES

10.4 Rural India and Microfinance

Micro financing has become important since the possibility of a sub 1,000 mobile handset has been ruled out in the near future. Rural India can generally afford handsets in the price range of 1,500-2,000. To succeed in India, agri-business must empower the farmer by making agriculture profitable, not by expropriating him for this particular purpose the farmer should be funded for their basic and small needs. Microfinance is expected to play a significant role in poverty alleviation and development. The need, therefore, is to share experiences and materials which will help not only in understanding successes and failures but also provide knowledge and guidelines to strengthen and expand Microfinance programmes. The development process through a typical Microfinance intervention can be understood with the help of the Figure 10.1 the ultimate aim is to attain social and economic empowerment. Successful intervention is therefore, dependent on how each of these stages has been carefully dealt with and also the capabilities of the implementing organizations in achieving the final goal, e.g., if credit delivery takes place without consolidation of SHGs, it may have problems of self-sustainability and recovery. A number of schemes under banks, central and state governments offer direct credit to potential individuals without forcing them to join SHGs. Compilation and classification of the communication materials in the directory is done based on this development process.

Self Assessment

Fill in the blanks:

1. is expected to play a significant role in poverty alleviation and development.
2. Microfinance has been attractive to the lending agencies because of demonstrated sustainability and of low costs of

NOTES

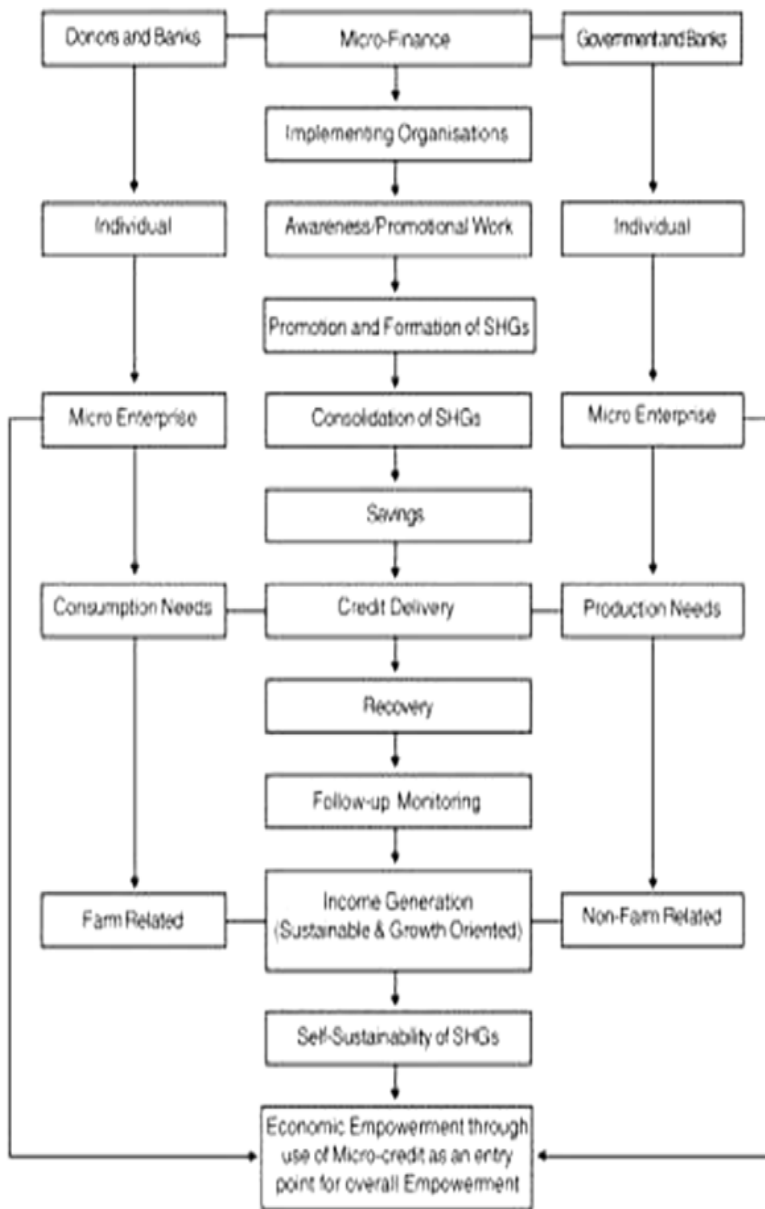


Figure 10.1: Development Process through Microfinance

3. Institutions like and NABARD are hard nosed bankers and would not work with the idea if they did not see a long term engagement.
4. Banks and institutions have been partners in contract farming schemes, set up to enhance credit.

10.5 Success Factors of Microfinance in Rural India

NOTES

Over the last ten years, successful experiences in providing finance to small entrepreneur and producers demonstrate that poor people, when given access to responsive and timely financial services at market rates, repay their loans and use the proceeds to increase their income and assets. This is not surprising since the only realistic alternative for them is to borrow from informal market at an interest much higher than market rates. Community banks, NGOs and grass root savings and credit groups around the world have shown that these micro enterprise loans can be profitable for borrowers and for the lenders, making microfinance one of the most effective poverty reducing strategies.

- *For NGOs*

1. The field of development itself expands and shifts emphasis with the pull of ideas, and NGOs perhaps more readily adopt new ideas, especially if the resources required are small, entry and exit are easy, tasks are (perceived to be) simple and people's acceptance is high – all characteristics (real or presumed) of microfinance.
2. Canvassing by various actors, including the National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Friends of Women's World Banking (FWWB), Rashtriya Mahila Kosh (RMK), Council for Advancement of People's Action and Rural Technologies (CAPART), Rashtriya Gramin Vikas Nidhi (RGVN), various donor funded

programmes especially by the International Fund for Agricultural Development (IFAD), United Nations Development Programme (UNDP), World Bank and Department for International Development, UK (DFID)], and lately commercial banks, has greatly added to the idea pull. Induced by the worldwide focus on microfinance, donor NGOs too have been funding microfinance projects. One might call it the supply push.

3. All kinds of things from khadi spinning to Nadep compost to balwadis do not produce such concrete results and sustained interest among beneficiaries as microfinance. Most NGO-led microfinance is with poor women, for whom access to small loans to meet dire emergencies is a valued outcome. Thus, quick and high 'customer satisfaction' is the USP that has attracted NGOs to this trade.
- ***For Financial Institutions and Banks :*** The National Bank for Agricultural and Rural Development (Nabard), set up to help expand credit to farmers and develop India's villages, is now undertaking a major repositioning exercise that will see this refiner switch to a direct financing model, albeit only partially in the beginning. Nabard will henceforth start funding infrastructure projects in the farm and power sectors on a commercial basis, a move that is likely to help boost earnings. This larger repositioning endeavor, for which a professional consultant has been roped in, is expected to make "Nabard more relevant in the current national context and also improve its internal efficiency," says K G Karmakar, Managing Director, Nabard, which was established by an Act of Parliament in 1981 with an initial capital outlay of 100 crore,

NOTES

NOTES

later enhanced to 2,000 crore. The repositioning is, of course, not without its share of risks.

- **Key Challenges:** The challenges are many. Being a refiner, the bank has a business model that may have been more suited to the pre-liberalization era. What Nabard does is raise money from specific sources and then disburse those funds (at a slightly higher interest rate) to banks and institutions that interface directly with villagers. This refinance-based model was once widely used by other development finance institutions as well.

“Over time, others such as SIDBI, ICICI, IDBI and IFCI have all moved to a direct financing-based business model,” says Roy. Nabard is not a listed entity. Even so, it is one of India’s top 20 finance companies in terms of ‘total income plus total assets’. Today, this refiner has a lending muscle of nearly 1.36 lakh crore, which it uses judiciously to refinance commercial, cooperative and regional rural banks for on-lending to the agriculture and allied sectors, and lend to states for infrastructure development from the Rural Infrastructure Development Fund (RIDF). Nabard, which came into being after it was felt that the RBI would be too stretched to meet India’s pressing credit problems, has an RIDF-heavy fund sourcing pattern. In fiscal 2009-10, nearly 44% of its funding came from RIDF deposits (scheduled commercial banks that do not fulfil their priority sector lending targets put the difference money in this fund). Income from bonds and debentures contributed nearly 15%. Around 12% came from the National Rural Credit Fund, which is augmented by the RBI and its internal accruals, and around 10% from Nabard’s capital reserves and surplus. The banks put their money in the RIDF at a 6% interest rate, but Nabard

lends this money out at 6.5% to states for infrastructure projects. Nabard's dependence on RIDF money renders it vulnerable, and this seems to have triggered the repositioning that will involve moving to a direct financing model. Banks rushing to meet their priority sector lending targets may stanch the flow of unutilized money into this fund in future, which could starve Nabard of its major source of capital.

Microfinance has been attractive to the lending agencies because of demonstrated sustainability and of low costs of operation. Institutions like SIDBI and NABARD are hard nosed bankers and would not work with the idea if they did not see a long term engagement – which only comes out of sustainability (that is economic attractiveness). On the supply side, it is also true that it has all the trappings of a business enterprise, its output is tangible and it is easily understood by the mainstream. This also seems to sound nice to the government, which in the post liberalization era is trying to explain the logic of every rupee spent. That is the reason why microfinance has attracted mainstream institutions like no other developmental project. Perhaps the most important factor that got banks involved is what one might call the policy push. Given that most of our banks are in the public sector, public policy does have some influence on what they will or will not do. In this case, policy was followed by diligent, if meandering, promotional work by NABARD. The policy change about a decade ago by RBI to allow banks to lend to SHGs was initially followed by a seven-page memo by NABARD to all bank chairmen, and later by sensitisation and training programmes for bank staff across the country. Several hundred such programmes were conducted by NGOs alone, each involving 15 to 20 bank staff, all paid for by NABARD. The policy push was sweetened by the NABARD refinance

NOTES

NOTES

Check Your Progress

What do you know about non-traditional markets?

scheme that offers much more favourable terms (100% refinance, wider spread) than for other rural lending by banks. NABARD also did some system setting work and banks lately have been given targets. The canvassing, training, refinance and close follow up by NABARD has resulted in widespread bank involvement.

10.6 Marketing of Microfinance Products

- **Contract Farming and Credit Bundling** : Banks and financial institutions have been partners in contract farming schemes, set up to enhance credit. Basically, this is a doable model. Under such an arrangement, crop loans can be extended under tie-up arrangements with corporate for production of high quality produce with stable marketing arrangements provided – and only, provided – the price setting mechanism for the farmer is appropriate and fair.
- **Agri Service Centre – Rabo India** : Rabo India Finance Pvt Ltd. has established agri-service centres in rural areas in cooperation with a number of agri-input and farm services companies. The services provided are similar to those in contract farming, but with additional flexibility and a wider range of products including inventory finance. Besides providing storage facilities, each centre rents out farm machinery, provides agricultural inputs and information to farmers, arranges credit, sells other services and provides a forum for farmers to market their products.
- **Non-traditional Markets** : Similarly, Mother Dairy Foods Processing, a wholly owned subsidiary of National Dairy Development Board (NDDB) has established auction markets for horticulture producers in Bangalore. The operations and maintenance of the market is done by NDDB. The project,

with an outlay of 15 lakh, covers 200 horticultural farmers associations with 50,000 grower members for wholesale marketing. Their produce is planned with production and supply assurance and provides both growers and buyers a common platform to negotiate better rates.

NOTES

10.7 Apni Mandi

Another innovation is that of The Punjab Mandi Board, which has experimented with a ‘farmers’ market’ to provide small farmers located in proximity to urban areas, direct access to consumers by elimination of middlemen. This experiment known as “Apni Mandi” belongs to both farmers and consumers, who mutually help each other. Under this arrangement a sum of 5.2 lakh is spent for providing plastic crates to 1000 farmers. Each farmer gets 5 crates at a subsidized rate. At the mandi site, the Board provides basic infrastructure facilities. At the farm level, extension services of different agencies are pooled in. These include inputs subsidies, better quality seeds and loans from Banks. Apni Mandi scheme provides self-employment to producers and has eliminated social inhibitions among them regarding the retail sale of their produce.

Self Assessment

Fill in the blanks:

4. Microfinance has been attractive to the lending agencies because of demonstrated sustainability and of costs of operation.
5. and financial institutions have been partners in contract farming schemes, set up to enhance credit.
6. Rabo India Finance Pvt Ltd. has established agri-service centres in areas in cooperation with a number of agri-input and farm services companies.

7. Bankers feel that it is risky to finance poor peoples because of their

NOTES

10.8 Summary

- The potential for growing Microfinance institutions in India is very high.
- Major cross-section can have benefit if this sector will grow in its fastest pace. Annual growth rate of about 20 % during the next five year.
- The loan outstanding will consequently grow from the present level of about 1600 crores to about 42000 crores Annual growth rate of about 20 % can be achieved during the next five years.

10.9 Key Terms

Companies Act 1956: For companies that are already registered under the Companies Act, 1956, if the central government is satisfied that the objects of that company are restricted to the promotion of commerce, science, art, religion, charity or any other useful purpose.

Microfinancing: Micro financing has become important since the possibility of a sub 1,000 mobile handset has been ruled out in the near future. Rural India can generally afford handsets in the price range of 1,500-2,000.

Rabo India Finance: Rabo India Finance Pvt Ltd. has established agri-service centres in rural areas in cooperation with a number of agri-input and farm services companies

10.10 Questions and Exercises

1. Describe the legal and regulatory framework for the microfinance institutions in India.

2. Explain the profile of Rural India.
3. What do you know about non-traditional markets?
4. Discuss the Marketing of Microfinance products.
5. Discuss the Rural India and Microfinance.
6. What are the success factors of Microfinance in Rural India?
7. Explain the contract farming and credit bundling.

Answers : Self Assessment

1. Microfinance
2. Operation
3. SIDBI
4. Financial
5. Low
6. Banks
7. Rural
8. Creditworthiness

10.11 Further Reading and References

- Awadesh Kumar Singh, Rural Marketing: Indian Perspective, New Age International.
- Balkrishnan, Mandira Dutta (1968), "Rural Marketing: Myth and Reality", Economic and Political weekly, August 1868, M-65 to M-80.
- Balram Dogra, Rural Marketing, McGraw Hill Companies.
- Dey, N.B and Adhikari, KingShuk (1998) "Rural Marketing challenges an opportunities", Yojana, 42(5), May 1998., p.21-22, 41.
- Gaikwad, V.K (1962), "A Research for the Rural Consumer", IN: New Opportunities in Changing Agriculture, Ahmedabad: CMA(IIMA), 1962, pp 159-162.

NOTES

NOTES

- Jha Mithileswar (1998), "Rural Marketing: Some Conceptual issues", Economic and Political Weekly, Vol XXIII(No. 9), February 26, 1998, pp M-8 to M-16.
- Kannan Shanthi (2001), "Rural Market – A world of Opportunity", Hindu, 11 October, 2011
- Kotler, P., & Armstrong, G. (2010). Principles of marketing. pearson education.
- McCracken, J., J, Pretty and G. Conway. (1988). An Introduction to Rapid Rural Appraisal for Rural Development. Iied, London, England.
- Pradeep Kashyap & Siddhartha Raut, The Rural Marketing, Biztantra.R.V. Bedi, N.V. Bedi, Rural Marketing, Himalaya Publishing.
- Rajagopal, Development of Agricultural Marketing in India Print well (Jaipur). Shepherd, A. (1999), "A guide to maize marketing for extension officers". Extension Guide 1, Marketing & Rural Finance Service. FAO, Rome.
- T.P. Gopal Swamy, Rural Marketing, Wheeler Publishing (New Delhi) 1998. CMIE Report.